



# Unlocking Value

## DAY.UN

### **DAYLIGHT RESOURCES TRUST REPORTS FOURTH QUARTER AND YEAR END 2006 FINANCIAL AND OPERATING RESULTS**

#### **MESSAGE TO UNITHOLDERS**

Daylight Resources Trust is pleased to report financial and operating results for the three months and year ended December 31, 2006.

On September 21, 2006, the merger between Daylight Energy Trust and Sequoia Oil & Gas Trust was completed to establish Daylight Resources Trust - a new intermediate-sized, oil & gas energy trust.

Daylight executed its 2006 internal capital program with a very disciplined approach to cost control during a period of unprecedented industry wide inflationary pressures. Daylight's internal capital program generated a finding and development cost of \$14.12 per boe on a proved plus probable basis including changes in future development capital which results in a profitable 1.8x recycle ratio.

Daylight's cost control discipline during a period of rising service industry and labour costs also reduced operating costs to \$10.44 per boe during Q4 2006 from \$10.58 per boe during Q3 2006.

#### **DAYLIGHT RESOURCES TRUST – HIGHLIGHTS**

- **Production Increased** - Q4 2006 up 36% from Q3 2006 to average 22,199 boe per day
- **Cash Flow Increased** - Q4 2006 up 34% from Q3 2006 to \$43.3 million
- **Operating Costs Reduced** - Q4 2006 down 1% from Q3 2006 to \$10.44 per boe
- **Reserves Added** - Internal capital program replaced 95% of production during 2006
- **Finding Costs** - Internal capital program added reserves at \$14.12 per boe on a proved plus probable basis including change in future development capital - \$14.93 per boe on a proved basis
- **Recycle Ratio** - Finding costs result in 1.8x recycle ratio on a proved plus probable basis including change in future development capital - 1.7x recycle ratio on a proved basis
- **Total Reserves** - Increased 38% to over 65 million boe during 2006

## FOURTH QUARTER AND FULL YEAR 2006 HIGHLIGHTS

<b>Financial</b> (CDN\$ thousands, except unit, per unit and operational data)	<b>Q4</b> <b>2006</b>	<b>Q3</b> <b>2006</b>	<b>Q4</b> <b>2005</b>	<b>Year ended December 31,</b>	
				<b>2006</b>	<b>2005</b>
Petroleum and natural gas revenues	\$ 92,715	\$ 69,877	\$ 85,615	\$ 297,333	\$ 276,573
Operating netback	52,202	38,615	54,526	166,321	170,268
Cash flow	43,274	32,242	48,467	141,725	148,882
Per unit – Basic	0.59	0.71	1.33	2.80	4.59
Per unit – Diluted	0.59	0.68	1.26	2.71	4.20
Capital expenditures	49,761	19,358	20,215	125,531	72,539
Units outstanding (000s)					
Basic	74,322	71,863	40,806	74,322	40,806
Diluted	75,309	72,117	43,854	75,309	43,854

**Operational**

Average daily production					
Natural gas (mcf/d)	80,991	57,926	54,438	63,648	56,306
Light oil (bbls/d)	4,455	3,172	2,368	3,269	2,476
Heavy oil (bbls/d)	2,796	2,760	2,460	2,709	1,631
NGLs (bbls/d)	1,449	756	814	908	815
Oil & NGLs (bbls/d)	8,700	6,688	5,642	6,886	4,922
Combined (boe/d)	22,199	16,342	14,715	17,494	14,307
Average prices received					
Natural gas (\$/mcf)	\$ 6.75	\$ 5.74	\$ 11.91	\$ 6.61	\$ 8.84
Light oil (\$/bbl)	60.07	74.23	63.40	67.15	62.83
Heavy oil (\$/bbl)	39.59	51.27	33.06	44.24	36.35
NGLs (\$/bbl)	49.53	67.79	58.79	58.09	53.47
Oil & NGLs (\$/bbl)	\$ 51.73	\$ 64.03	\$ 49.52	\$ 56.94	\$ 52.51
All Products Combined (\$/boe)	\$ 45.40	\$ 46.48	\$ 63.24	\$ 46.57	\$ 52.97
Operating expenses (\$/boe)	10.44	10.58	10.03	10.55	9.97
Operating netback (\$/boe)	25.56	25.68	40.28	26.04	32.61
Cash flow (\$/boe)	21.19	21.44	35.80	22.20	28.51

**PRODUCTION GROWTH**

- Q4 2006 production volumes of 22,199 boe/d
  - Increased 36% from Q3 2006 and 51% from Q4 2005
- 2006 production volumes of 17,494 boe/d
  - Increased 22% from 2005

**SOLID CASH FLOW**

- Q4 2006 cash flow was \$43.3 million versus \$32.2 million for Q3 2006
  - Natural gas prices were 18% higher in Q4 2006 versus Q3 2006
  - Oil and NGL prices were 19% lower in Q4 2006 versus Q3 2006
- 2006 cash flow was \$141.7 million versus \$148.9 million for 2005
  - Combined prices per boe were 12% lower in 2006 versus 2005
  - Natural gas prices were 25% lower in 2006 versus 2005
  - Oil and NGL prices were 8% higher in 2006 versus 2005

Daylight maintained solid cash flow in a lower commodity price environment



### **NATURAL GAS PRODUCTION HEDGES**

- Winter gas hedges – 38 mmcf/d from December 01, 2006 to March 31, 2007 at an average floor price of \$7.33 per mcf
  - 44% of our forecasted natural gas production hedged during this period
- Summer gas hedges – 38 mmcf/d from April 01, 2007 to October 31, 2007 at an average floor price of \$7.19 per mcf
  - 44% of our forecasted natural gas production hedged during this period

Daylight's natural gas hedges provide downside price protection for predictability of future revenues

### **CAPITAL EXPENDITURES – HIGHLY SUCCESSFUL 2006 PROGRAM WITH 98% DRILLING SUCCESS RATE**

- Daylight has invested \$92.8 million on its 2006 internal capital program
- Daylight's 2006 Finding and Development cost was \$14.12 per proved plus probable boe, including changes in future development capital
- The Trust drilled a total of 47 gross (27.6 net) wells with 98% success rate
  - West Central - 9 gross (4.5 net) natural gas wells
  - Peace River Arch - 8 gross (2.8 net) wells comprised of 7 gross (2.7 net) light oil wells and 1 gross (0.1 net) natural gas well
  - East - 30 gross (20.3 net) wells comprised of 16 gross (13.3 net) heavy oil wells, 13 gross (6.0 net) natural gas wells and 1 gross (1.0 net) dry and abandoned

### **RESERVE HIGHLIGHTS**

- **Total proved plus probable reserves increased 38%** - 65.4 million barrels of oil equivalent ("mmboe") at year-end 2006 compared to 47.4 mmboe at the end of 2005
- **Total proved reserves increased 42%** - 47.7 mmboe at year-end 2006 compared to 33.7 mmboe at the end of 2005
- **Sustained Reserve Life Index** - 8.1 years for proved plus probable reserves at the end of 2006 based on Q4 2006 production volumes
- **Net present value ("NPV") of total proved plus probable reserves increased 48%** - \$1,025 million at the end of 2006 from \$690 million at the end of 2005, discounted at 10% and before income taxes
- **Solid reserve value with proved reserves providing 80% of NPV** - at a 10% discount factor
- **Daylight's internal capital program generated a 1.8x recycle ratio** - during 2006 based on \$14.12 per boe finding & development costs on a proven plus probable basis net of changes in future development capital ("FDC") and an operating netback of \$26.04 per boe
- **Daylight completed four strategic transactions in 2006** - two acquisitions and two dispositions to net acquire 18.4 mmboe of proved plus probable reserves at an average cost of \$28.95 per boe excluding FDC and \$30.05 per boe including FDC
- **Daylight replaced 383% of annual production** - at an all-in annual proved plus probable FD&A cost of \$25.59 per boe excluding FDC and \$26.11 per boe including FDC

**RESERVE INFORMATION**

Reserves included herein are stated on a company interest basis (before royalty burdens and including royalty interests) unless noted otherwise. All reserves information has been prepared in accordance with National Instrument ("NI") 51-101. This report contains several cautionary statements that are specifically required by NI 51-101. In addition to the detailed information disclosed in this press release more detailed information on a net interest basis (after royalty burdens and including royalty interests) and on a gross interest basis (before royalty burdens and excluding royalty interests) will be included in Daylight's Annual Information Form ("AIF") which will be available on [www.sedar.com](http://www.sedar.com).

Based on an independent reserves evaluation conducted by GLJ Petroleum Consultants Ltd. ("GLJ") effective December 31, 2006 and prepared in accordance with NI 51-101, Daylight had proved plus probable reserves of 65.4 mmboe. Proved plus probable reserve additions from exploration and development activities (including revisions) were 6.0 mmboe while 18.4 mmboe were added through acquisitions (net of minor dispositions), bringing the total additions to 24.4 mmboe. This represents 383% of the 6.4 mmboe produced during 2005. As a result, year-end 2006 proved plus probable reserves are 38% higher than the 47.4 mmboe of reserves recorded at year-end 2005.

Proved developed producing reserves represent 61% of proved plus probable reserves while total proved reserves account for 73% of proved plus probable reserves. Approximately 48% of Daylight's proved plus probable reserves are crude oil and natural gas liquids while 52% are natural gas on a boe basis.

**TOTAL COMPANY INTEREST**

	<b>Light and Medium Crude Oil</b>	<b>Heavy Crude Oil</b>	<b>Total Crude Oil</b>	<b>Natural Gas Liquids</b>	<b>Natural Gas</b>	<b>Oil Equivalent</b>
	(mdbl)	(mdbl)	(mdbl)	(mdbl)	(mmcf)	(mboe)
<b>Proved</b>						
Developed Producing	6,917	8,543	15,460	2,298	134,420	40,161
Developed Non-Producing	813	31	844	185	9,498	2,613
Undeveloped	924	2,167	3,091	251	9,698	4,959
<b>Total Proved</b>	<u>8,654</u>	<u>10,741</u>	<u>19,395</u>	<u>2,734</u>	<u>153,617</u>	<u>47,732</u>
Probable	4,830	3,210	8,040	967	52,086	17,688
<b>Proved plus Probable</b>	<u>13,485</u>	<u>13,951</u>	<u>27,436</u>	<u>3,701</u>	<u>205,703</u>	<u>65,420</u>

**NET INTEREST**

	<b>Light and Medium Crude Oil</b>	<b>Heavy Crude Oil</b>	<b>Total Crude Oil</b>	<b>Natural Gas Liquids</b>	<b>Natural Gas</b>	<b>Oil Equivalent</b>
	(mdbl)	(mdbl)	(mdbl)	(mdbl)	(mmcf)	(mboe)
<b>Proved</b>						
Producing	5,773	7,597	13,370	1,535	105,703	32,523
Developed Non-Producing	633	23	656	123	7,330	2,001
Undeveloped	789	1,743	2,532	171	7,612	3,972
<b>Total Proved</b>	<u>7,195</u>	<u>9,363</u>	<u>16,558</u>	<u>1,829</u>	<u>120,644</u>	<u>38,495</u>
Probable	4,031	2,770	6,801	645	41,326	14,334
<b>Proved plus Probable</b>	<u>11,226</u>	<u>12,134</u>	<u>23,360</u>	<u>2,474</u>	<u>161,970</u>	<u>52,829</u>

Notes:

1. Boe's may be misleading, particularly if used in isolation. In accordance with NI 51-101, a boe conversion ratio for natural gas of 6 Mcf: 1 bbl has been used which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
2. Numbers may not add due to rounding.



# DAYLIGHT RESOURCES TRUST

## RESERVES RECONCILIATIONS

	<b>Total Crude Oil</b> (mbbl)	<b>Natural Gas Liquids</b> (mbbl)	<b>Natural Gas</b> (mmcf)	<b>Oil Equivalent</b> (mboe)
<b>Proved Producing</b>				
December 31, 2005	12,605	1,200	82,632	27,577
Exploration Discoveries	294	208	6,818	1,638
Drilling Extensions	230	27	1,196	456
Improved Recovery	35	4	402	106
Infill Drilling	432	8	590	538
Technical Revisions	515	96	15,335	3,168
Acquisitions	3,632	1,087	53,879	13,699
Dispositions	(101)	(1)	(3,200)	(636)
Production	(2,182)	(331)	(23,232)	(6,385)
<b>December 31, 2006</b>	<b>15,460</b>	<b>2,298</b>	<b>134,420</b>	<b>40,161</b>

	<b>Total Crude Oil</b> (mbbl)	<b>Natural Gas Liquids</b> (mbbl)	<b>Natural Gas</b> (mmcf)	<b>Oil Equivalent</b> (mboe)
<b>Total Proved</b>				
December 31, 2005	16,351	1,439	95,291	33,672
Exploration Discoveries	438	219	7,158	1,850
Drilling Extensions	415	45	2,723	914
Improved Recovery	-	2	1,712	288
Infill Drilling	508	21	982	693
Technical Revisions	197	53	13,231	2,454
Acquisitions	3,769	1,288	61,008	15,225
Dispositions	(101)	(2)	(5,256)	(979)
Production	(2,182)	(331)	(23,232)	(6,385)
<b>December 31, 2006</b>	<b>19,395</b>	<b>2,734</b>	<b>153,617</b>	<b>47,732</b>

	<b>Total Crude Oil</b> (mbbl)	<b>Natural Gas Liquids</b> (mbbl)	<b>Natural Gas</b> (mmcf)	<b>Oil Equivalent</b> (mboe)
<b>Total Proved Plus Probable</b>				
December 31, 2005	24,017	2,001	128,073	47,363
Exploration Discoveries	529	276	8,936	2,294
Drilling Extensions	268	58	4,978	1,156
Improved Recovery	-	3	2,186	366
Infill Drilling	600	29	2,613	1,065
Technical Revisions	(600)	(24)	10,716	1,163
Acquisitions	5,032	1,691	79,211	19,924
Dispositions	(228)	(2)	(7,778)	(1,526)
Production	(2,182)	(331)	(23,232)	(6,385)
<b>December 31, 2006</b>	<b>27,436</b>	<b>3,701</b>	<b>205,703</b>	<b>65,420</b>

## RESERVE LIFE INDEX ("RLI")

Daylight's proved plus probable RLI was 8.1 years at the end of 2006 while the proved RLI was 5.9 years based upon GLJ reserves and Daylight's Q4 2006 production of 22,199 boe per day.

## NET PRESENT VALUE ("NPV") SUMMARY

Daylight's crude oil, natural gas and natural gas liquids reserves were evaluated using GLJ's product price forecasts effective January 1, 2007 prior to provision for income taxes, interest, debt service charges and general and administrative expenses. It should not be assumed that the discounted future net production revenues estimated by GLJ represent the fair market value of the reserves.

*NPV of Cash Flow Using GLJ January 1, 2007 Forecast Prices and Costs*

NI 51-101 Net Interest (\$,000)	0%	5%	10%	15%	20%
<b>Proved</b>					
Developed Producing	1,076,751	858,476	723,075	630,296	562,323
Developed Non-Producing	74,084	60,897	51,881	45,340	40,378
Undeveloped	86,641	59,127	41,830	30,169	21,907
<b>Total Proved</b>	<b>1,237,476</b>	<b>978,500</b>	<b>816,786</b>	<b>705,805</b>	<b>624,608</b>
Probable	516,238	306,057	207,949	152,864	118,145
<b>Proved plus Probable</b>	<b>1,753,714</b>	<b>1,284,557</b>	<b>1,024,735</b>	<b>858,669</b>	<b>742,753</b>

At a 10% discount factor, the proved producing reserves make up 71% of the proved plus probable value while total proved reserves account for 80% of the proved plus probable value. GLJ's price forecast utilized in the evaluation is summarized below.

*GLJ January 1, 2007 Price Forecast*

Year	West Texas Intermediate Crude Oil (\$US/bbl)	Edmonton Light Crude Oil (\$Cdn/bbl)	Natural Gas at AECO (\$Cdn/mmbtu)	Foreign Exchange (\$US/\$Cdn)
2007	62.00	70.25	7.20	0.87
2008	60.00	68.00	7.45	0.87
2009	58.00	65.75	7.75	0.87
2010	57.00	64.50	7.80	0.87
2011	57.00	64.50	7.85	0.87
2012	57.50	65.00	8.15	0.87
2013	58.50	66.25	8.30	0.87
2014	59.75	67.75	8.50	0.87
2015	61.00	69.00	8.70	0.87
2016	62.25	70.50	8.90	0.87
2017	63.50	71.75	9.10	0.87
Escalate thereafter at	+2.0%/yr	+2.0%/yr	+2.0%/yr	0%/yr



## DAYLIGHT RESOURCES TRUST

The reserves have also been evaluated using constant prices and costs effective December 31, 2006. Following are the values determined using this constant price analysis.

### *NPV of Cash Flow Using December 31, 2006 Constant Prices and Costs*

<b>NI 51-101 Net Interest</b>	<b>0%</b>	<b>5%</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>
(\$,000)					
<b>Proved</b>					
Developed Producing	891,210	720,360	611,739	536,006	479,830
Developed Non-Producing	61,459	51,512	44,438	39,157	35,065
Undeveloped	75,017	51,233	35,893	25,411	17,928
<b>Total Proved</b>	<b>1,027,686</b>	<b>823,104</b>	<b>692,070</b>	<b>600,573</b>	<b>532,823</b>
Total Probable	397,102	244,971	169,666	125,764	97,428
<b>Proved plus Probable</b>	<b>1,424,788</b>	<b>1,068,075</b>	<b>861,737</b>	<b>726,337</b>	<b>630,251</b>

At a 10% discount factor, the proved producing reserves make up 71% of the proved plus probable value while total proved reserves account for 80% of the proved plus probable value. The prices utilized in the constant price evaluation are summarized below.

### *Constant Prices at December 31, 2006*

<b>Year</b>	<b>West Texas Intermediate Crude Oil</b>	<b>Edmonton Light Crude Oil</b>	<b>Natural Gas at AECO</b>	<b>Foreign Exchange</b>
	(\$US/bbl)	(\$Cdn/bbl)	(\$Cdn/mmbtu)	(\$US/\$Cdn)
2006 and thereafter	60.85	67.58	6.07	0.8581

### **NET ASSET VALUE ("NAV") SUMMARY**

The following NAV table shows what is normally referred to as a "produced-out" NAV calculation under which the current value of the Trust's reserves would be produced at forecast future prices and costs. The value is a snapshot in time and is based on various assumptions including commodity prices and foreign exchange rates that vary over time.

<b>Net Asset Value</b>	<b>2006</b>
(\$,000)	
Proved plus Probable NI 51 - 101 discounted at 10%	1,024,735
Undeveloped Land, Seismic and Other Assets (internal estimate)	65,400
Investments	22,860
Bank Debt and Capital Lease Obligation	(353,511)
Working Capital Deficiency	(12,243)
<b>Net Asset Value – Diluted</b>	<b>747,241</b>
Diluted Units Outstanding (,000)	75,309
<b>Net Asset Value – Fully Diluted</b>	<b>\$9.92</b>

## DAYLIGHT RESOURCES TRUST

### FD&A Costs – Company Interest Reserves<sup>1</sup>

	Proved	Proved plus Probable
<b>FD&amp;A Costs Excluding Future Development Capital</b>		
Exploration and Development Capital Expenditures - \$,000	92,802	92,802
Exploration and Development Reserve Additions Including Revisions - mboe	6,199	6,044
<b>Finding and Development Cost - \$ per boe</b>	<b>14.97</b>	<b>15.35</b>
Net Acquisition Capital - \$,000	532,692	532,692
Net Acquisition Reserve Additions - mboe	14,246	18,398
<b>Net Acquisition Cost - \$ per boe</b>	<b>37.39</b>	<b>28.95</b>
Total Capital Expenditures including Net Acquisitions - \$,000	625,494	625,494
Reserve Additions including Net Acquisitions - mboe	20,445	24,442
<b>Finding Development and Acquisition Cost - \$ per boe</b>	<b>30.59</b>	<b>25.59</b>
<b>FD&amp;A Costs Including Future Development Capital</b>		
Exploration and Development Capital Expenditures - \$,000	92,802	92,802
Exploration and Development Change in FDC - \$,000	(251)	(7,478)
Exploration and Development Capital including change in FDC - \$,000	92,551	85,324
Exploration and Development Reserve Additions including Revisions - mboe	6,199	6,044
<b>Finding and Development Cost - \$ per boe</b>	<b>14.93</b>	<b>14.12</b>
Net Acquisition Capital - \$,000	532,692	532,692
Net Acquisition FDC - \$,000	8,404	20,178
Net Acquisition Capital including FDC - \$,000	541,096	552,870
Net Acquisition Reserve Additions – mboe	14,246	18,398
<b>Net Acquisition Cost - \$ per boe</b>	<b>37.98</b>	<b>30.05</b>
Total Capital Expenditures including Net Acquisitions - \$,000	625,494	625,494
Total Change in FDC - \$,000	8,153	12,700
Total Capital Including Change in FDC - \$,000	633,647	638,194
Reserve Additions including Net Acquisitions - mboe	20,445	24,442
<b>Finding Development and Acquisition Cost including FDC - \$ per boe</b>	<b>30.99</b>	<b>26.11</b>
<b>FDC (\$,000)</b>	<b>Proved</b>	<b>Proved plus Probable</b>
December 31, 2005	48,043	92,878
Increase from acquisitions	8,404	20,178
Exploration & development changes in period	(251)	(7,478)
<b>December 31, 2006</b>	<b>56,196</b>	<b>105,578</b>

<sup>1</sup> In all cases, the F&D, or FD&A number is calculated by dividing the identified capital expenditures by the applicable reserves additions. Boe's may be misleading, particularly if used in isolation. In accordance with NI 51-101, a boe conversion ratio for natural gas of 6 Mcf: 1 bbl has been used which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.



***FUTURE DEVELOPMENT CAPITAL ("FDC")***

NI 51-101 requires that FD&A costs be calculated including changes in FDC. Changes in forecast FDC occur annually as a result of development activities, acquisition and disposition activities and capital cost estimates that reflect the independent evaluator's best estimate of what it will cost to bring the proved undeveloped and probable reserves on production. The current high level of activity has resulted in increased capital costs throughout the industry that are now reflected in the estimates of future development costs effective December 31, 2006.

***FINDING AND DEVELOPMENT COSTS ("F&D")***

During 2006 Daylight spent \$92.8 million on its internal capital program which added 6.2 mmboe of proved and 6.0 mmboe of proved plus probable reserves, including revisions. Daylight's internal capital program replaced 95% of its 2006 production on a proved plus probable basis. In total, Daylight drilled 47 gross (27.6 net) wells with a 98% drilling success rate.

Daylight's proved plus probable F&D costs for 2006 were \$15.35 per boe excluding FDC and \$14.12 including FDC. On a proved basis, Daylight's F&D costs were \$14.97 per boe excluding FDC and \$14.93 including FDC.

***FINDING, DEVELOPMENT AND ACQUISITION COSTS ("FD&A")***

Daylight completed two strategic acquisitions during 2006 spending \$560.4 million to purchase 19.9 mmboe of proved plus probable reserves. Daylight's activities were focused on the strategic acquisition of Sequoia Oil & Gas Trust as well as a targeted property acquisition on the Peace River Arch.

Incorporating net acquisitions during the 2006, Daylight's proved plus probable FD&A costs were \$28.95 per boe excluding FDC and \$30.05 including FDC. Daylight's proved FD&A costs were \$37.39 per boe excluding FDC and \$37.98 per boe including FDC.

***RESERVE REPLACEMENT***

Daylight's 2006 FD&A activities replaced 383% of production on a proved plus probable basis, 320% on a proved basis and 297% on a proved producing basis.

	<b>2006</b>
Production - mboe	6,385
Proved plus probable reserve additions - mboe	24,442
Proved plus probable reserve replacement - %	383
Proved reserve additions - mboe	20,445
Proved reserve replacement - %	320
Proved producing reserve additions - mboe	18,969
Proved producing reserve replacement - %	297

## RECYCLE RATIO

The recycle ratio is a measure for evaluating the effectiveness of an organizations reinvestment program. This ratio measures the efficiency of Daylight's internal capital program by comparing the operating netback per boe to the current year internal F&D costs per boe.

	2006
Operating netback - \$ per boe	26.04
Proved plus probable reserve F&D cost (excluding FDC) - \$ per boe	15.35
Proved plus probable recycle ratio (excluding FDC)	1.7x
Proved plus probable reserve F&D cost (including FDC) - \$ per boe	14.12
Proved plus probable recycle ratio (including FDC)	1.8x
Proved reserve F&D cost (excluding FDC) - \$ per boe	14.97
Proved recycle ratio (excluding FDC)	1.7x
Proved reserve F&D cost (including FDC) - \$ per boe	14.93
Proved recycle ratio (including FDC)	1.7x

## DAYLIGHT TAX POOLS - ABILITY TO SHELTER SIGNIFICANT INCOME

Daylight and it subsidiaries have tax pools of over \$750 million at December 31, 2006 which are available to shelter significant cash flow from income tax in current periods and beyond 2011.

(000s)	Corporate	Trust	Combined
Canadian exploration expense	\$ 56,000	\$ -	\$ 56,000
Canadian development expense	266,000	-	266,000
Canadian oil and gas property expense	26,000	82,000	108,000
Undepreciated capital cost	267,000	-	267,000
Non-capital losses	38,000	-	38,000
Share issue costs	6,000	15,000	21,000
Total	\$ 659,000	\$ 97,000	\$ 756,000

## 2007 OUTLOOK

Daylight Resources Trust's 2007 guidance remains unchanged with a capital expenditure budget of \$90 million expected to deliver average annual production of 22,000 to 23,000 boe per day. Daylight plans to fund the 2007 capital program and cash distributions entirely from internally generated cash flow and has suspended the issuance of units under the Premium Distribution Reinvestment and Optional Trust Unit Purchase Plan. Daylight is currently executing its 2007 capital program with multiple initial successes and is also developing significant additional new internal opportunities. Daylight continues to pursue accretive acquisitions that are becoming available in the current marketplace at increasingly attractive metrics. Daylight is focused on providing distributions and creating Unitholder value through investment in our diversified asset portfolio and large undeveloped land base.

Signed:

*"Anthony Lambert"*

Anthony Lambert  
President & CEO

March 21, 2007





## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

December 31, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion & Analysis ("MD&A") is dated March 21, 2007 and should be read in conjunction with the accompanying audited consolidated financial statements and notes for the years ended December 31, 2006 and 2005. The consolidated financial statements and other financial data presented have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). This MD&A should also be read in conjunction with the Annual Information Form which includes complete NI 51-101 reserve disclosure and is available at [www.sedar.com](http://www.sedar.com) and on our website at [www.daylightenergy.ca](http://www.daylightenergy.ca). The following MD&A compares the results of the three months ended December 31, 2006 ("Q4 2006") to the three months ended December 31, 2005 ("Q4 2005") and to the three months ended September 30, 2006 ("Q3 2006"). The MD&A also compares the results of the year ended December 31, 2006 ("2006") to the year ended December 31, 2005 ("2005").

Daylight Resources Trust ("Daylight") uses the term cash flow to evaluate operating performance and leverage. Cash flow and cash flow per unit as presented and as used in the MD&A does not have any standardized prescribed meaning under GAAP and therefore it may not be comparable with the calculation of similar measures of other entities. Cash flow does not represent operating profit for the period nor should it be viewed as an alternative to operating profit, net earnings or other measures of financial performance calculated in accordance with GAAP. All references to cash flow throughout the MD&A are based on cash provided by operating activities before changes in non-cash operating working capital, asset retirement expenditures and Plan of Arrangement costs. Daylight uses the term payout ratio (defined on a percentage basis as distributions declared divided by cash flow) to evaluate operating performance and financial flexibility. Payout ratio as used in the MD&A does not have any standardized meaning under GAAP and therefore it may not be comparable with the calculation of similar measures of other entities. Daylight also uses the term operating netback (defined as petroleum and natural gas revenues less royalties, realized gain (loss) on commodity derivatives, operating and transportation expenses) to analyze operating performance. Operating netback as used in the MD&A does not have any standardized meaning under GAAP and therefore it may not be comparable with the calculation of similar measures of other entities.

All references are to Canadian dollars unless otherwise indicated. Where reserves or production are stated on a barrel of oil equivalent ("boe") basis, natural gas volumes have been converted to a boe at a ratio of 6,000 cubic feet of natural gas to one barrel of oil. This conversion ratio is based upon an energy equivalent conversion method primarily applicable at the burner tip and does not represent value equivalence at the wellhead. Boe's may be misleading, particularly if used in isolation.

*Forward Looking Statements - Certain statements contained within the Management Discussion and Analysis, and in certain documents incorporated by reference into this document, constitute forward-looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. We believe the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this Management Discussion and Analysis should not be unduly relied upon. These statements speak only as of the date of this Management Discussion and Analysis or as of the date specified in the documents incorporated by reference into this Management Discussion and Analysis, as the case may be.*

*In particular, this Management Discussion and Analysis, and the documents incorporated by reference, contain forward-looking statements pertaining to the following:*



- *the performance characteristics of our oil and natural gas properties;*
- *oil and natural gas production levels;*
- *the size of the oil and natural gas reserves;*
- *projections of market prices and costs;*
- *supply and demand for oil and natural gas;*
- *expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development;*
- *treatment under governmental regulatory regimes and tax laws; and*
- *capital expenditures programs.*

*The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Management Discussion and Analysis:*

- *volatility in market prices for oil and natural gas;*
- *market value of the securities of Daylight;*
- *liabilities inherent in oil and natural gas operations;*
- *uncertainties associated with estimating oil and natural gas reserves;*
- *competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;*
- *incorrect assessments of the value of acquisitions;*
- *geological, technical, drilling and processing problems;*
- *changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry and income trusts; and*
- *the other factors discussed under "Risks and Uncertainties" in the annual Management and Discussion Analysis.*

*Statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward looking statements contained in this Management Discussion and Analysis and the documents incorporated by reference herein are expressly qualified by this cautionary statement. We do not undertake any obligation to publicly update or revise any forward-looking statements.*

### **Plan of Arrangement – Creation of Daylight Resources Trust**

On September 21, 2006, Daylight Energy Trust ("DET") and Sequoia Oil and Gas Trust ("Sequoia") received DET securityholder and Sequoia unitholder approval of their previously announced Plan of Arrangement (the "Arrangement"). The Arrangement was approved by over 96 percent of the votes cast at the DET meeting and approximately 99 percent of the votes cast at the Sequoia meeting.

Under the Arrangement each DET Unitholder received 0.6642 units of Daylight for each one DET unit held and DET Exchangeable Shareholders received 0.6642 units of Daylight for each DET unit the Exchangeable Shares held were equivalent to at the closing date of the Arrangement. Also, under the Arrangement each Sequoia Unitholder received 0.8250 units of Daylight for each one Sequoia unit held. DET Unitholders received approximately 62% of the outstanding units of Daylight and Sequoia Unitholders received approximately 38% of the outstanding units of Daylight. Unitholders of both Trusts also received, as a separate distribution, common shares ("Trafalgar Common Shares") of Trafalgar Energy Ltd. ("Trafalgar") on the basis of 0.0417 of a Trafalgar Common Share for each DET Unit and 0.0517 of a Trafalgar Common Share for each Sequoia Unit. In addition, under the Arrangement, each holder of DET Units received 0.0116 of a warrant ("Trafalgar Arrangement Warrant") of Trafalgar for each DET Unit held and each holder of Sequoia Units received 0.0144 of a Trafalgar Arrangement Warrant for each Sequoia Unit held. Each full Trafalgar Arrangement Warrant was exercisable for a period of 30 days following completion of the Arrangement into one Trafalgar Common Share at an exercise price of \$4.02 per share. Under the Arrangement, Daylight retained 740,240 Trafalgar Common Shares within the Trust.

All previously reported unit and per unit amounts have been retroactively restated to reflect the impact of the established 0.6642 units of Daylight for each unit of DET received under the Arrangement, unless specifically indicated otherwise.

### **Administrative & Technical Services Agreement and Relationship with Midnight Oil Exploration Ltd.**

Since November 30, 2004, Daylight Energy Ltd. ("Daylight Energy") and Midnight Oil Explorations Ltd. ("MOX") have been operating pursuant to an Administrative and Technical Services Agreement which provided for the shared services required to manage the activities of Daylight Energy and MOX and to govern the allocation of general and administrative expenses between the entities. Under this agreement, Daylight Energy was the employer on behalf of the parties and received payment for certain technical and administrative services provided to MOX. Pursuant to DET's merger with Sequoia, Daylight Energy and MOX announced their intention to terminate the agreement on mutually acceptable terms. The Administrative and Technical Services Agreement was terminated effective December 31, 2006. Certain administrative services which provide reasonable economy and do not involve competitive issues are provided to MOX by Daylight Energy on a fixed fee basis and these services may be cancelled by either party.

### **Tax Legislation Announcement**

On October 31, 2006, the Federal Minister of Finance announced proposals (the "October 31, 2006 Proposals") to amend the *Tax Act* to apply a tax on distributions from publicly-traded income trusts. Under the October 31, 2006 Proposals, existing income trusts will be subject to the new measures commencing in their 2011 taxation year, following a four-year grace period. The Federal Minister of Finance has issued a Notice of Ways and Means Motion to Amend the *Tax Act*, but it is not known at this time if or when the proposal will be enacted by Parliament.

In simplified terms, under the proposed tax plan, distributions to unitholders that had previously been provided without taxes or withholdings will become subject to a new tax at the income trust level. The income distributions to Canadian taxable individual unitholders will be treated as dividends from a Canadian corporation and would be eligible for the dividend tax credit. Income distributions to corporations resident in Canada will be eligible for full deduction as tax free intercorporate dividends. Tax-deferred accounts (Registered Retirement Savings Plans, Registered Retirement Income Funds and Canadian Pension Funds) will continue to pay no tax on distributions received. Non-resident unitholders will be taxed on distributions at the non-resident withholding tax rate for dividends. The net impact on Canadian taxable investors is expected to be minimal because they may take advantage of the dividend tax credit. Distributions to tax-deferred accounts and to non-residents will be negatively affected since these distributions will be subject to the distribution tax at the trust level but the recipients will not be eligible for the dividend tax credit which is available to Canadian taxable investors.

Given the grace period before existing trusts will be taxed, the Trust has an opportunity to examine its strategy, and if warranted, modify it to provide the best possible return for unitholders. The grace period applies limitation thresholds on the issuance of new equity or securities convertible into new equity from October 31, 2006 to December 31, 2010 and issuances exceeding these thresholds may cause an earlier expiry of the grace period. Unitholders also have an opportunity to arrange their investments to minimize the impact of the proposed tax changes on their portfolios. Daylight's high quality tax pools of over \$750 million at December 31, 2006 will be available to provide significant shelter from cash taxes payable beyond the expiry of the grace period available to the Trust. The effect of the proposed tax changes on the Trust is yet to be determined and the Trust continues to evaluate the impact of the proposed measures on net income, cash flows and the valuation impact on long-lived assets such as goodwill, all of which could be material.



# DAYLIGHT RESOURCES TRUST

## HIGHLIGHTS

<b>Financial</b>	<b>Q4</b>	<b>Q3</b>	<b>Q4</b>	<b>Year ended December 31,</b>	
(CDN\$ thousands, except unit, per unit and operational data)	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Petroleum and natural gas revenues	\$ 92,715	\$ 69,877	\$ 85,615	\$ 297,333	\$ 276,573
Royalties	(17,414)	(13,269)	(15,753)	(57,123)	(49,787)
Realized gain (loss) on derivatives	91	(133)	(99)	(42)	(390)
Operating expenses	(21,319)	(15,901)	(13,580)	(67,354)	(52,073)
Transportation	(1,871)	(1,959)	(1,657)	(6,493)	(4,055)
Operating netback	52,202	38,615	54,526	166,321	170,268
G&A – cash charge	(4,325)	(3,634)	(3,545)	(13,181)	(9,856)
Cash financial charges	(4,519)	(2,695)	(1,862)	(11,199)	(10,063)
Cash taxes	(84)	(44)	(652)	(216)	(1,467)
Cash flow					
(excluding Plan of Arrangement costs)	43,274	32,242	48,467	141,725	148,882
Per unit					
– Basic	0.59	0.71	1.33	2.80	4.59
– Diluted	0.59	0.68	1.26	2.71	4.20
Net income (loss)	(283,511)	(2,140)	25,447	(257,823)	64,060
Per unit					
– Basic	(3.88)	(0.05)	0.70	(5.09)	2.06
– Diluted	(3.88)	(0.05)	0.69	(5.09)	1.99
Cash distributions declared	43,008	31,844	24,316	127,922	72,585
Per unit	0.59	0.62	0.63	2.47	2.26
Payout ratio <sup>(1)</sup>	99%	n/a <sup>(1)</sup>	50%	n/a <sup>(1)</sup>	49%
Capital expenditures	49,761	19,358	20,215	125,531	72,539
Non-cash capital divestitures	-	(21,100)	(14,636)	(27,728)	(14,636)
Corporate acquisitions	-	527,691	116,509	527,691	177,509
Wells drilled – gross (net)	9 (1.8)	12 (9.2)	34 (21.7)	47 (27.6)	71 (40.6)
Market value of investments	22,860	20,500	-	22,860	-
Bank debt	349,336	287,392	123,455	349,336	123,455
Working capital deficiency (excluding bank debt)	15,561	46,877	26,575	15,561	26,575
Total assets	1,114,085	1,424,236	841,254	1,114,085	841,254
Units outstanding (000s)					
Basic	74,322	71,863	40,806	74,322	40,806
Diluted	75,309	72,117	43,854	75,309	43,854
<b>Operational</b>					
Average daily production					
Natural gas (mcf/d)	80,991	57,926	54,438	63,648	56,306
Light oil (bbls/d)	4,455	3,172	2,368	3,269	2,476
Heavy oil (bbls/d)	2,796	2,760	2,460	2,709	1,631
NGLs (bbls/d)	1,449	756	814	908	815
Oil & NGLs (bbls/d)	8,700	6,688	5,642	6,886	4,922
Combined (boe/d)	22,199	16,342	14,715	17,494	14,307
Average prices received					
Natural gas (\$/mcf)	\$ 6.75	\$ 5.74	\$ 11.91	\$ 6.61	\$ 8.84
Light oil (\$/bbl)	60.07	74.23	63.40	67.15	62.83
Heavy oil (\$/bbl)	39.59	51.27	33.06	44.24	36.35
NGLs (\$/bbl)	49.53	67.79	58.79	58.09	53.47
Oil & NGLs (\$/bbl)	\$ 51.73	\$ 64.03	\$ 49.52	\$ 56.94	\$ 52.51
Combined (\$/boe)	\$ 45.40	\$ 46.48	\$ 63.24	\$ 46.57	\$ 52.97
Petroleum and natural gas revenues (\$/boe)	\$ 45.40	\$ 46.48	\$ 63.24	\$ 46.57	\$ 52.97
Royalties (\$/boe)	(8.53)	(8.83)	(11.64)	(8.95)	(9.53)
Realized gain (loss) on derivatives (\$/boe)	0.04	(0.09)	(0.07)	(0.01)	(0.08)
Operating expenses (\$/boe)	(10.44)	(10.58)	(10.03)	(10.55)	(9.97)
Transportation (\$/boe)	(0.92)	(1.30)	(1.22)	(1.02)	(0.78)
Operating netback (\$/boe)	\$ 25.56	\$ 25.68	\$ 40.28	\$ 26.04	\$ 32.61
G&A – cash charge (\$/boe)	(2.12)	(2.42)	(2.62)	(2.06)	(1.89)
Cash financial charges (\$/boe)	(2.21)	(1.79)	(1.38)	(1.75)	(1.93)
Cash taxes (\$/boe)	(0.04)	(0.03)	(0.48)	(0.03)	(0.28)
Cash flow (\$/boe)					
(excluding Plan of Arrangement costs)	\$ 21.19	\$ 21.44	\$ 35.80	\$ 22.20	\$ 28.51

Per boe amounts may not add exactly due to rounding

<sup>(1)</sup> On a proforma basis, if the Sequoia transaction had been completed on September 1, 2006, the payout ratio would have been 88% for Q3 2006 and 90% for YTD 2006. See discussion in Distributions section for further details.

## RESULTS OF OPERATIONS

Daylight is an oil and natural gas energy trust applying a high end technical and business execution team to a high quality asset base to provide sustainable production and reserve levels. Daylight operates in the Western Canadian Sedimentary Basin. Daylight's units and its 8.5% Convertible Debentures trade on the Toronto Stock Exchange ("TSX") with the symbols DAY.UN and DAY.DB, respectively.

### Production

Daylight's total production volumes for Q4 2006 averaged 22,199 boe per day which is a 36% increase from Q3 2006. Q4 2006 production is comprised of 80,991 mcf per day of natural gas, 4,455 bbls per day of light oil, 2,796 bbls per day of heavy oil and 1,449 bbls per day of natural gas liquids ("NGLs"). Production for Q4 2006 increased 51% over Q4 2005 due to corporate acquisitions and a successful 2006 capital program. Production for 2006 averaged 17,494 boe/d, a 22% increase from 2005. Q4 2006 includes a full quarter of production from the assets acquired under the Plan of Arrangement with Sequoia effective September 21, 2006, while Q3 2006 only includes 10 days of production from these assets.

	Q4 2006	Q3 2006	Q4 2005	Year ended December 31, 2006	2005
Natural gas (mcf/d)	80,991	57,926	54,438	63,648	56,306
Light oil (bbls/d)	4,455	3,172	2,368	3,269	2,476
Heavy oil (bbls/d)	2,796	2,760	2,460	2,709	1,631
NGLs (bbls/d)	1,449	756	814	908	815
Combined oil & NGLs (bbls/d)	8,700	6,688	5,642	6,886	4,922
Combined all products (boe/d)	22,199	16,342	14,715	17,494	14,307

2006 production replacement activities focused on the:

- West Central properties of Pine Creek, Kaybob, Fir, Oldman and Windfall
- Peace River Arch properties of Red Earth, Cecil and Beaverlodge
- Eastern properties of Wildmere, Chigwell, Bon Accord, Norris and Chipman

### Commodity Prices

Daylight's natural gas prices are influenced by overall North American supply and demand balance, seasonal changes, storage levels and transportation capacity constraints. Daylight's realized natural gas price has a high correlation to the Alberta benchmark price ("AECO") which provides pricing for natural gas based on heating value.

Daylight's oil price is significantly influenced by global supply and demand conditions. Daylight's realized light oil price has a high correlation to the US benchmark West Texas Intermediate at Cushing, Oklahoma ("WTI") price and the Canadian to US dollar exchange rate. Canadian light oil prices correlate to refinery postings that adjust WTI for the Canadian to US dollar exchange rate as well as transportation costs and quality adjustments. Daylight's realized heavy oil price is lower than its light oil price and the historical correlation with WTI is not as strong. Heavy oil requires increased refining and costs, such as condensate for blending, which reduce the realized price of this production. During 2006 the WTI price has been very strong which has enhanced the price realized by Daylight on its oil production.

NGLs include condensate, pentane, butane and propane. Prices for NGLs have their own market dynamic with a relatively strong correlation to oil prices for condensate and pentane while butane and propane trade at varying discounts due to market conditions of supply and demand.



## DAYLIGHT RESOURCES TRUST

Market Prices	Q4 2006	Q3 2006	Q4 2005	Year ended December 31, 2006	2005
AECO (\$Cdn/mcf)	\$ 6.77	\$ 5.58	\$ 11.46	\$ 6.38	\$ 8.65
WTI (\$US/bbl)	59.96	70.48	60.02	66.09	56.60
Edmonton Par (\$Cdn/bbl)	64.94	79.69	71.40	73.25	69.18
Bow River (\$Cdn/bbl)	45.24	58.83	42.71	51.31	43.83
Exchange rate (\$Cdn/\$US)	0.8779	0.8919	0.8522	0.8820	0.8262

Daylight prices realized:	Q4 2006	Q3 2006	Q4 2005	Year ended December 31, 2006	2005
Natural gas (\$/mcf)	\$ 6.75	\$ 5.74	\$ 11.91	\$ 6.61	\$ 8.84
Light oil (\$/bbl)	60.07	74.23	63.40	67.15	62.83
Heavy oil (\$/bbl)	39.59	51.27	33.06	44.24	36.35
NGLs (\$/bbl)	49.53	67.79	58.79	58.09	53.47
Combined oil & NGLs (\$/bbl)	51.73	64.03	49.52	56.94	52.51
Combined all products (\$/boe)	\$ 45.40	\$ 46.48	\$ 63.24	\$ 46.57	\$ 52.97

Daylight's natural gas price during Q4 2006 was \$6.75/mcf in line with AECO for the quarter. During Q4 2006 the range of daily AECO pricing for natural gas ranged from a low of approximately \$2.40/mcf to a high of approximately \$8.36/mcf. Daylight's realized gas price for 2006 was \$6.61/mcf representing a 4% premium to AECO. Daylight has consistently realized a slight premium to AECO on its natural gas sales as a result of the heating value of the natural gas production and Daylight expects this to continue for 2007. During the month of October 2006 the pricing realized on aggregator contracts was significantly below AECO and eroded Daylight's historical premium to AECO for Q4 2006. During the months of November and December 2006 the realized price on these aggregator contracts correlated to AECO and Daylight's historical premium to AECO was restored. With the decrease in natural gas prices during 2006, Daylight's realized price for the year ended December 31, 2006 was 25% lower than those realized in 2005. The Q4 2006 natural gas price was 43% lower than the price realized in Q4 2005 but 18% higher than the price realized in Q3 2006.

Daylight's realized light oil price generally correlates with the Edmonton par price for the period and is subject to adjustments for quality differentials and transportation costs to market. For Q4 2006, Daylight's light oil realized \$60.07/bbl, 93% of the Edmonton par price, while in Q3 2006 this production realized \$74.23/bbl, also 93% of the Edmonton par price. The overall realized price for 2006 was \$67.15/bbl or 92% of the Edmonton par price. On a per barrel basis, Daylight's price has increased from the corresponding periods in 2005 in line with the increases in Edmonton par price.

Daylight's heavy oil production is concentrated at two properties with Wildmere producing approximately 80% of our current volumes and Chipman producing the remaining 20%. Daylight's Q4 2006 realized heavy oil price of \$39.59/bbl, 88% of the Bow River price, is consistent with the Q3 2006 price of \$51.27/bbl, 87% of the Bow River price, and substantially better than the Q4 2005 price of \$33.06/bbl, 77% of the Bow River price, due to the improved heavy oil differentials experienced during 2006. The 2006 realized heavy oil price of \$44.24/bbl, 86% of the Bow River price, compares favourably to the 2005 price of \$36.35/bbl which was 83% of the Bow River price.

Daylight's combined oil and NGLs price during Q4 2006 was \$51.73/bbl and \$56.94/bbl for the 2006 year which represents a 4% and 8% increase from the corresponding periods in 2005.

Daylight's realized prices, with the exception of heavy oil, are expected to continue to correlate with market prices, subject to the impact of our commodity derivatives that are in place, during 2007. In conjunction with the Sequoia acquisition and additional activities subsequent to Q3 2006, Daylight now has commodity derivatives in place for a portion of both oil and natural gas production volumes.

**Revenue**

(000s)	<b>Q4 2006</b>	<b>Q3 2006</b>	<b>Q4 2005</b>	<b>Year ended December 31, 2006 2005</b>	
Natural gas	\$ 50,291	\$ 30,598	\$ 59,663	\$ 153,481	\$ 181,634
Light oil	24,619	21,661	13,812	80,120	56,782
Heavy oil	10,185	13,018	7,482	43,745	21,639
NGLs	6,603	4,718	4,403	19,252	15,907
Other	1,017	(118)	255	735	611
<b>Total</b>	<b>\$ 92,715</b>	<b>\$ 69,877</b>	<b>\$ 85,615</b>	<b>\$ 297,333</b>	<b>\$ 276,573</b>

Production increased by 36% on a per boe basis, with a corresponding 33% increase in revenue for Q4 2006 to \$92.7 million from Q3 2006. Natural gas sales for Q4 2006 were \$50.3 million, an increase of 64% from Q3 2006. Light oil sales for Q4 2006 were \$24.6 million, up 14% from Q3 2006, heavy oil sales for Q4 2006 were \$10.2 million, down 22% from Q3 2006, and NGLs sales for Q4 2006 were \$6.6 million, up 40% from Q3 2006. The increases in oil and NGLs prices offset the 7% decrease in gas prices. For the year ended December 31, 2006, Daylight realized a 15% decrease in natural gas sales, a 41% increase in light oil sales, a 102% increase in heavy oil sales, and a 21% increase in NGL sales over the year ended December 31, 2005. There were only 9 months of heavy oil production in 2005. Total revenue increased 7% year over year, to \$297.3 million in 2006 from \$276.6 million in 2005 due to production volumes increasing 22% and the average realized price, on a combined boe basis, decreasing 12%.

**Royalties**

Royalty payments are made to the owners of the mineral rights on our leases which include provincial governments (Crown) and freehold landowners as well as to other third parties by way of contractual overriding royalties.

In Alberta, royalties on natural gas and NGLs are charged by the government based on an established monthly Reference Price. The Reference Price is meant to reflect the average price for natural gas and NGLs in Alberta. Gas cost allowance, custom processing credits and other incentive programs reduce the effective royalty rate.

Overriding royalties are generally paid to third parties where Daylight has entered into agreements to earn an interest in their mineral rights by investing capital in the property.

Oil royalty rates are generally a function of production rates on a per well basis and prices. They are also subject to certain reductions and incentives. Oil crown royalties in Alberta are generally satisfied by delivering the required volume of oil to the Crown.

Royalties by type (000s)	<b>Q4 2006</b>	<b>Q3 2006</b>	<b>Q4 2005</b>	<b>Year ended December 31, 2006 2005</b>	
Crown royalties, net of ARTC	\$ 14,192	\$ 11,134	\$ 13,504	\$ 46,495	\$ 41,799
Freehold royalties	1,510	1,205	1,005	5,622	3,264
Overriding royalties	1,712	930	1,244	5,006	4,724
<b>Total</b>	<b>\$ 17,414</b>	<b>\$ 13,269</b>	<b>\$ 15,753</b>	<b>\$ 57,123</b>	<b>\$ 49,787</b>
<b>\$ per boe</b>	<b>\$ 8.53</b>	<b>\$ 8.83</b>	<b>\$ 11.64</b>	<b>\$ 8.95</b>	<b>\$ 9.53</b>
<b>% of revenue</b>	<b>18.8</b>	<b>19.0</b>	<b>18.4</b>	<b>19.2</b>	<b>18.0</b>



## DAYLIGHT RESOURCES TRUST

Royalties by commodity (000s)	Q4 2006	Q3 2006	Q4 2005	Year ended December 31, 2006 2005	
Natural gas	\$ 9,937	\$ 6,204	\$ 11,225	\$ 31,914	\$ 33,525
Oil and NGLs	7,477	7,065	4,528	25,209	16,262
Total	\$ 17,414	\$ 13,269	\$ 15,753	\$ 57,123	\$ 49,787
Natural gas (\$/boe)	\$ 8.00	\$ 6.98	\$ 13.45	\$ 8.24	\$ 9.79
Oil and NGLs (\$/boe)	9.34	11.48	8.72	10.03	9.05
Total (\$/boe)	\$ 8.53	\$ 8.83	\$ 11.64	\$ 8.95	\$ 9.53
Natural gas (% of revenue)	19.8	20.3	18.8	20.8	18.5
Oil and NGLs (% of revenue)	18.1	18.0	17.6	17.6	17.2
Total (% of revenue)	18.8	19.0	18.4	19.2	18.0

Overall royalty rates decreased from 19% of revenue to 18.8% in Q4 2006 over Q3 2006. Natural gas rates decreased from 20.3% of revenue to 19.8%, while oil and NGLs royalty rates increased from 18% of revenue to 18.1%. Rates increased from 18% of revenue to 19.2% year over year. Royalties on a dollar per boe basis decreased 3% from Q3 2006.

### Gain (Loss) on Commodity Derivatives

Prior to the Sequoia acquisition, Daylight did not have any commodity derivatives in place. The Trust may enter into financial or commodity derivatives to manage commodity prices, foreign exchange and interest rate risk.

As at December 31, 2006, Daylight had the following financial derivatives in place:

Type of Contract	Commodity	Hedged Volume <sup>(3)</sup>	Hedge Price	Hedge Period
Financial (Collar <sup>(1)</sup> )	Natural gas	10,000 GJ/d	Cdn\$7.50 - \$12.77/GJ	Nov 1/06 to Mar 31/07
Financial (Funded Collar <sup>(2)</sup> )	Natural gas	30,000 GJ/d	Cdn\$6.75 - \$9.50/GJ	Dec 1/06 to Mar 31/07
Financial (Funded Collar <sup>(2)</sup> )	Natural gas	30,000 GJ/d	Cdn\$6.75 - \$8.50/GJ	Apr 1/07 to Oct 31/07

<sup>(1)</sup> Collar price indicates floor (minimum) and ceiling (maximum).

<sup>(2)</sup> Funded Collar price indicates floor (minimum) and ceiling (maximum). Funded Collar has a premium payable of \$0.10/GJ.

<sup>(3)</sup> A GJ converts to a Mcf at the rate of 1.055056 GJs per Mcf.

Commodity derivatives used to manage risk are subject to periodic settlements throughout the term of the instruments. Such settlements may result in a gain or loss which is recognized as a commodity derivative gain or loss at the time of settlement. The mark-to-market value of a derivative outstanding at the end of a reporting period reflects the value of the derivative based upon market conditions existing as of that date. Any change in value from that determined at the end of the prior period is recognized as an unrealized commodity derivative gain or loss.

(000s)	Q4 2006	Q3 2006	Q4 2005	Year ended December 31, 2006 2005	
Realized gain (loss)	\$ 91	\$ (133)	\$ (99)	\$ (42)	\$ (390)
Unrealized gain	5,195	871	404	6,066	-
Total	\$ 5,286	\$ 738	\$ 305	\$ 6,024	\$ (390)
Realized gain (loss) (\$/boe)	\$ 0.04	\$ (0.09)	\$ (0.07)	\$ (0.01)	\$ (0.08)
Unrealized gain (\$/boe)	2.54	0.58	0.30	0.95	-
Total (\$/boe)	\$ 2.59	\$ 0.49	\$ 0.23	\$ 0.94	\$ (0.08)

In conjunction with the Flowing acquisition in Q2 2005, a commodity derivative contract was assumed. The commodity derivative contract was for 500 barrels per day of oil at a fixed price of Cdn\$52.70 per barrel and expired on December 31, 2005. The fixed price of Cdn\$52.70 per barrel was settled monthly against the actual US\$ price per WTI barrel adjusted to Canadian dollars with the actual Cdn\$/US\$ exchange rate.

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Daylight applied mark-to-market accounting to this financial instrument. During Q4 2005 this commodity derivative generated a gain of \$305,000 composed of a realized loss of \$99,000 and an unrealized gain of \$404,000.

Daylight continues to monitor commodity prices and may selectively hedge a portion of its production. The current 12 month forward strip for AECO natural gas is approximately \$8.15 per mcf and WTI oil is approximately US\$63 per barrel.

Subsequent to December 31, 2006, the following financial derivatives were entered into:

Type of Contract	Commodity	Hedged Volume <sup>(2)</sup>	Hedge Price	Hedge Period
Financial (Funded Collar <sup>(1)</sup> )	Natural gas	5,000 GJ/d	Cdn\$7.00 - \$9.10/GJ	Apr 1/07 to Oct 31/07
Financial (Funded Collar <sup>(1)</sup> )	Natural gas	5,000 GJ/d	Cdn\$7.00 - \$9.21/GJ	Apr 1/07 to Oct 31/07

<sup>(1)</sup> Funded Collar price indicates floor (minimum) and ceiling (maximum). Funded Collar has a premium payable of \$0.10/GJ.

<sup>(2)</sup> A GJ converts to a Mcf at the rate of 1.055056 GJs per Mcf.

### Operating Expenses

Operating expenses include activities in the field required to operate wells and facilities, lift to surface, gather, process, treat and store production.

(000s)	Q4 2006	Q3 2006	Q4 2005	Year ended December 31, 2006	Year ended December 31, 2005
Operating costs	\$ 21,319	\$ 15,901	\$ 13,580	\$ 67,354	\$ 52,073
\$ per boe	\$ 10.44	\$ 10.58	\$ 10.03	\$ 10.55	\$ 9.97

Daylight experienced a 1% decrease to operating costs on a per boe basis during Q4 2006 compared to Q3 2006 resulting in an operating cost of \$10.44 per boe. Daylight's operating expenses of \$10.55 for the year ending December 31, 2006 reflects an increase of 6% over the year ending December 31, 2005. The increase during 2006 is due to industry wide inflationary pressures related to the tight supply of equipment, services and materials.

### Transportation Expenses

Transportation expenses are defined by the point of legal custody transfer of the commodity and are influenced by the nature of the production, location, availability of transportation and the sales point. The cost of delivering production to the custody transfer point is shown separately as transportation expense.

Daylight generally sells its light oil and NGLs production at the lease with the purchaser taking legal custody of the oil and paying a price for the oil at that delivery point. Daylight's heavy oil, and a small portion of its light oil, production are delivered to a terminal by truck and as such bear trucking charges which are a transportation expense. Natural gas is usually transported to an established delivery point such as AECO in Alberta and then transferred to the purchaser. Transportation expense decreased to \$0.92 per boe in Q4 2006 from \$1.30 per boe in Q3 2006. Prior period trucking charges negatively impacted Q3 2006. For the year ended December 31, 2006, the transportation charge of \$1.02/boe increased from \$0.78/boe for the year ended December 31, 2005 as 2005 only included nine months of heavy oil production.



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(000s)	Q4 2006	Q3 2006	Q4 2005	Year ended December 31, 2006	2005
Transportation costs	\$ 1,871	\$ 1,959	\$ 1,657	\$ 6,493	\$ 4,055
\$ per boe	\$ 0.92	\$ 1.30	\$ 1.22	\$ 1.02	\$ 0.78

### Operating Netbacks

The following table provides detail regarding Daylight's Operating Netbacks on a per boe basis.

\$ per boe	Q4 2006	Q3 2006	Q4 2005	Year ended December 31, 2006	2005
Revenue	\$ 45.40	\$ 46.48	\$ 63.24	\$ 46.57	\$ 52.97
Royalties	(8.53)	(8.83)	(11.64)	(8.95)	(9.53)
Realized gain (loss) on derivatives	0.04	(0.09)	(0.07)	(0.01)	(0.08)
Operating cost	(10.44)	(10.58)	(10.03)	(10.55)	(9.97)
Transportation	(0.92)	(1.30)	(1.22)	(1.02)	(0.78)
Operating netback	\$ 25.56	\$ 25.68	\$ 40.28	\$ 26.04	\$ 32.61

### General and Administrative Expenses

The following table provides detail regarding Daylight's General and Administrative Expense on a total and per boe basis.

(000s)	Q4 2006	Q3 2006	Q4 2005	Year ended December 31, 2006	2005
Gross G&A	\$ 7,764	\$ 6,520	\$ 7,464	\$ 25,745	\$ 21,271
Recoveries from MOX	(714)	(950)	(948)	(3,749)	(2,622)
Operating recoveries	(1,225)	(800)	(747)	(4,207)	(3,185)
Capitalized costs	(1,500)	(1,136)	(2,224)	(4,608)	(5,608)
G&A – cash charge	4,325	3,634	3,545	13,181	9,856
Unit based compensation	5,289	12,806	1,016	20,851	2,936
Net G&A	\$ 9,614	\$ 16,440	\$ 4,561	\$ 34,032	\$ 12,792

\$ per boe	Q4 2006	Q3 2006	Q4 2005	Year ended December 31, 2006	2005
Gross G&A	\$ 3.80	\$ 4.34	\$ 5.51	\$ 4.02	\$ 4.07
Recoveries from MOX	(0.35)	(0.63)	(0.70)	(0.58)	(0.51)
Operating recoveries	(0.60)	(0.53)	(0.55)	(0.66)	(0.61)
Capitalized costs	(0.73)	(0.76)	(1.64)	(0.72)	(1.07)
G&A – cash charge	2.12	2.42	2.62	2.06	1.89
Unit based compensation	2.59	8.52	0.75	3.27	0.56
Net G&A	\$ 4.71	\$ 10.94	\$ 3.37	\$ 5.33	\$ 2.45

General and administrative expenses ("G&A") during Q4 2006 were \$9.6 million (\$4.71 per boe) including non-cash unit based compensation of \$5.3 million (\$2.59 per boe). General and administrative expense for Q3 2006 was \$16.4 million (\$10.94 per boe) including non-cash unit based compensation of \$12.8 million (\$8.52 per boe). G&A expenses for the 2006 year were \$34.0 million (\$5.33 per boe) including non-cash unit based compensation of \$20.9 million (\$3.27 per boe). Q4 2006 cash G&A expense per boe decreased 12% from the prior quarter and 19% from the same period last year. Q3 2006 included costs associated with work done to prepare for increased regulatory reporting requirements in 2007 (NI 52-109) and integration costs associated with the acquisition of Sequoia. Management anticipates these costs to decrease as the majority of the work for the regulatory change concluded in the last quarter of 2006 and as the Daylight and Sequoia teams are now unified and as economies of scale are realized.

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Pursuant to the Administrative and Technical Services Agreement, Daylight Energy charged MOX \$1.8 million relating to general and administrative activities for the year ended December 31, 2006 (2005 - \$1.0 million) and \$1.9 million relating to capital expenditures for the year ended December 31, 2006 (2005 - \$1.6 million). The Administrative and Technical Services Agreement was terminated effective December 31, 2006. Certain administrative services which provide reasonable economy and do not involve competitive issues are provided to MOX by Daylight Energy on a fixed fee basis and these services may be cancelled by either party.

Unit based compensation expense is an allocation of the fair value of Restricted Trust Unit Awards ("RTUs") and Performance Trust Unit Awards ("PTUs") to their three year vesting period starting at the date of grant. Unit based compensation expense also includes amounts relating to the Employee Bonus Plan and Employee Unit Ownership Plan that were settled in units issued from treasury in Q4 2006. In conjunction with the Arrangement, all unit awards vested immediately prior to the closing of the Arrangement, resulting in significant unit based compensation expense for Q3 2006.

### Plan of Arrangement Costs

In conjunction with the Sequoia acquisition, Daylight incurred \$4.8 million of costs related to retention, severance, and other deal costs that were expensed during Q3 2006.

### Financial Charges

Daylight incurs cash interest expense on its outstanding bank debt and convertible debentures. Daylight's effective bank debt interest rate was 5.4% for the Q4 2006 and 5.1% for the year ended December 31, 2006 and the convertible debentures have a fixed interest rate of 8.5%. Non-cash financial charges relate to amortization of costs incurred to issue convertible debentures, establish bank credit facilities and accretion of the convertible debenture discount. Daylight's bank debt interest rate is expected to continue to correlate with market interest rates during 2007 and the convertible debentures interest rate is fixed at 8.5%. Cash financial charges are influenced by both the interest rate and the level of bank debt outstanding.

(000s)	Q4 2006	Q3 2006	Q4 Year ended December 31, 2005	2006	2005
Bank debt interest	\$ 4,442	\$ 2,614	\$ 1,500	\$ 10,763	\$ 4,975
Convertible debenture interest	77	81	362	436	5,088
Cash financial charges	4,519	2,695	1,862	11,199	10,063
Amortization of financial charges	34	34	55	146	553
Accretion of convertible debenture discount	5	5	20	27	321
Total	\$ 4,558	\$ 2,734	\$ 1,937	\$ 11,372	\$ 10,937

\$ per boe	Q4 2006	Q3 2006	Q4 Year ended December 31, 2005	2006	2005
Bank debt interest	\$ 2.17	\$ 1.74	\$ 1.11	\$ 1.69	\$ 0.96
Convertible debenture interest	0.04	0.05	0.27	0.07	0.97
Cash financial charges	2.21	1.79	1.38	1.75	1.93
Amortization of financial charges	0.02	0.02	0.04	0.02	0.11
Accretion of convertible debenture discount	-	-	0.01	-	0.06
Total	\$ 2.23	\$ 1.81	\$ 1.43	\$ 1.78	\$ 2.10

### Depletion, Depreciation and Accretion

Daylight's depletion, depreciation and accretion for the three and twelve months ended December 31, 2006 totalled \$37.6 million and \$111.1 million respectively, a 71% and 38% increase over the corresponding periods in 2005. Q4 2006 charges increased \$12.1 million (\$1.44/boe) from Q3 2006 as a result of the Sequoia acquisition, which was recorded at fair market value.



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(000s)	Q4 2006	Q3 2006	Q4 Year ended December 31, 2005	2006	2005
Depletion and Depreciation	\$ 36,971	\$ 25,072	\$ 21,598	\$ 109,151	\$ 78,889
Accretion	640	436	370	1,962	1,436
Total	\$ 37,611	\$ 25,508	\$ 21,968	\$ 111,113	\$ 80,325
\$ per boe					
Depletion and Depreciation	\$ 18.10	\$ 16.68	\$ 15.95	\$ 17.08	\$ 15.11
Accretion	0.31	0.29	0.27	0.31	0.28
Total	\$ 18.41	\$ 16.97	\$ 16.23	\$ 17.38	\$ 15.39

### Goodwill

The Trust records goodwill on corporate acquisitions when the total purchase price exceeds the fair value of the net identifiable assets and liabilities of the acquired company. The goodwill balance is assessed for impairment annually at year-end and any impairment is recognized based on the fair value of the Trust compared to its book value. At December 31, 2006 Daylight performed an assessment of its goodwill and determined that the fair value of the entity had been reduced due to the decline in the Trust's market capitalization subsequent to the October 31, 2006 federal government announcement. This test resulted in a write down of goodwill of \$301 million for 2006. If this assessment were to be updated for the market capitalization as of March 21, 2007, the Trust estimates it would incur an additional write down of approximately \$75 million. There has been no impairment to the value of Daylight's petroleum and natural gas assets during 2006.

(000s)	Q4 2006	Q3 2006	Q4 2005	Year ended December 31, 2006	2005
Write down of goodwill	\$ 301,000	\$ -	\$ -	\$ 301,000	\$ -

### Future Income and Capital Taxes

During Q2 2006, several tax rate reductions were substantively enacted, both federally and provincially, resulting in the reduction of future taxes and the elimination of the Large Corporations Tax provision, the benefits of which were recognized in Q2 2006. During the year ended December 31, 2006 Daylight recognized cash taxes of \$0.2 million related to Saskatchewan capital tax obligations and a future income tax reduction of \$33.2 million compared to cash taxes of \$1.5 million related to capital tax obligations and a future income tax reduction of \$1.9 million for the same period in 2005. For the three months of Q4 2006, Daylight recognized cash taxes of \$0.1 million related to capital tax obligations and a future income tax reduction of \$12.3 million. Daylight is a taxable entity under the Canadian Income Tax Act and is currently taxable only on income that is not distributed or distributable to its unitholders.

On October 31, 2006, the Federal Minister of Finance announced proposals (the "October 31, 2006 Proposals") to amend the *Tax Act* to apply a tax on distributions from publicly-traded income trusts. Under the October 31, 2006 Proposals, existing income trusts will be subject to the new measures commencing in their 2011 taxation year, following a four-year grace period. The Federal Minister of Finance has issued a Notice of Ways and Means Motion to Amend the *Tax Act*, but it is not known at this time if or when the proposal will be enacted by Parliament.

In simplified terms, under the proposed tax plan, distributions to unitholders that had previously been provided without taxes or withholdings will become subject to a new tax at the income trust level. The income distributions to Canadian taxable individual unitholders will be treated as dividends from a Canadian corporation and would be eligible for the dividend tax credit. Income distributions to corporations resident in Canada will be eligible for full deduction as tax free intercorporate dividends. Tax-deferred accounts (Registered Retirement Savings Plans, Registered Retirement Income Funds and Canadian Pension Funds) will continue to pay no tax on distributions received. Non-resident unitholders will be taxed on distributions at the non-resident withholding tax rate for dividends. The net impact on Canadian taxable investors is expected to be minimal because they may take advantage of the dividend tax credit. Distributions to tax-deferred accounts and to non-residents will be negatively affected since these

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distributions will be subject to the distribution tax at the trust level but the recipients will not be eligible for the dividend tax credit which is available to Canadian taxable investors.

Given the grace period before existing trusts will be taxed, the Trust has an opportunity to examine its strategy, and if warranted, modify it to provide the best possible return for unitholders. The grace period applies limitation thresholds on the issuance of new equity or securities convertible into new equity from October 31, 2006 to December 31, 2010 and issuances exceeding these thresholds may cause an earlier expiry of the grace period. Unitholders also have an opportunity to arrange their investments to minimize the impact of the proposed tax changes on their portfolios. Daylight's high quality tax pools of over \$750 million at December 31, 2006 will be available to provide significant shelter from cash taxes payable beyond the expiry of the grace period available to the Trust. The effect of the proposed tax changes on the Trust is yet to be determined and the Trust continues to evaluate the impact of the proposed measures on net income, cash flows and the valuation impact on long-lived assets such as goodwill, all of which could be material.

As the tax proposals had not yet been substantively enacted as of December 31, 2006, the consolidated financial statements of the Trust do not reflect the impact of the proposed taxation.

Daylight does not expect to incur any cash income taxes until at least 2011 and expects to continue to recognize recoveries of recorded future tax liability amounts on the balance sheet until at least 2011 as income is generated and distributions are paid to unitholders.

(000s)	Q4 2006	Q3 2006	Q4 2005	Year ended December 31, 2006 2005	
Future Tax	\$ (12,262)	\$ (7,940)	\$ (594)	\$ (33,234)	\$ (1,974)
Capital Tax	84	44	652	216	1,467
Total	\$ (12,178)	\$ (7,896)	\$ 58	\$ (33,018)	\$ (507)
\$ per boe					
Future Tax	\$ (6.00)	\$ (5.28)	\$ (0.44)	\$ (5.20)	\$ (0.38)
Capital Tax	0.04	0.03	0.48	0.03	0.28
Total	\$ (5.96)	\$ (5.25)	\$ 0.04	\$ (5.17)	\$ (0.10)

As at December 31, 2006, Daylight and its subsidiaries have tax pools of approximately \$756 million. These tax pool balances are subject to change as tax returns are completed, annual claims are made, and may involve the reclassification of items between categories.

(000s)	2006			2005
	Corporate	Trust	Combined	Combined
Canadian exploration expense	\$ 56,000	\$ -	\$ 56,000	\$ 40,000
Canadian development expense	266,000	-	266,000	153,000
Canadian oil and gas property expense	26,000	82,000	108,000	-
Undepreciated capital cost	267,000	-	267,000	150,000
Non-capital losses	38,000	-	38,000	34,000
Share issue costs	6,000	15,000	21,000	4,000
Total	\$ 659,000	\$ 97,000	\$ 756,000	\$ 381,000

### Non-Controlling Interest – Exchangeable Shares

Effective June 30, 2005, Daylight retroactively adopted and applied the new accounting policy relating to the classification of exchangeable shares in accordance with the CICA issued revised draft EIC-151 "Exchangeable Securities Issued by a Subsidiary of an Income Trust". As a result, the exchangeable shares issued by the Trust's subsidiary must be reflected as non-controlling interest on the balance sheet. Accordingly, net earnings are reduced by the net earnings attributed to the non-controlling interest. The net income attributed to the non-controlling interest was \$0.6 million for the year ended December 31, 2006 (2005 - \$2.7 million).



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As part of the Arrangement, all of the exchangeable shares were exchanged for Daylight units and there were no exchangeable shares outstanding at December 31, 2006. The number of trust units issued upon conversion was based on the exchange ratio in effect on the date of conversion. The exchange ratio is calculated monthly based on the five day weighted average trust unit trading price preceding the monthly distribution record date. The exchange ratio at September 21, 2006 was 1.29243 (1.17462 as at December 31, 2005).

### Net Income and Cash Flow

As a result of the previously discussed factors, Daylight recognized a Q4 2006 net loss of \$283.5 million (\$3.88/unit-basic, \$3.88/unit-diluted) and cash flow of \$43.3 million (\$21.19/boe, \$0.59/unit-basic, \$0.59/unit-diluted). For the year ended December 31, 2006, Daylight recognized a net loss of \$257.8 million (\$5.09/unit-basic, \$5.09/unit-diluted) and cash flow of \$141.7 million (\$22.20/boe, \$2.80/unit-basic, \$2.71/unit-diluted). Results from the comparative periods are presented below.

(000s)	Q4 2006	Q3 2006	Q4 2005	Year ended December 31, 2006 2005	
Net income (loss)	\$ (283,511)	\$ (2,140)	\$ 25,447	\$ (257,823)	\$ 64,060
Per boe	\$ (138.82)	\$ (1.42)	\$ 18.80	\$ (40.38)	\$ 12.27
Per Unit					
Basic	\$ (3.88)	\$ (0.05)	\$ 1.33	\$ (5.09)	\$ 4.59
Diluted	\$ (3.88)	\$ (0.05)	\$ 1.26	\$ (5.09)	\$ 4.20
Cash flow	\$ 43,274	\$ 32,242	\$ 48,467	\$ 141,725	\$ 148,882
Per boe	\$ 21.19	\$ 21.44	\$ 35.80	\$ 22.20	\$ 28.51
Per Unit					
Basic	\$ 0.59	\$ 0.71	\$ 0.70	\$ 2.80	\$ 2.06
Diluted	\$ 0.59	\$ 0.68	\$ 0.69	\$ 2.71	\$ 1.99

Daylight's cash flow is significantly influenced by production volumes and commodity prices.

Daylight's estimated sensitivity to changes in its commodity price, production volume and exchange rate assumptions during the 2007 year is approximately:

- \$2.4 million per \$0.10 change in natural gas price per mcf.
- \$2.2 million per US\$1.00 change in the WTI oil price per bbl.
- \$1.8 million per 1 mmcf per day change in production.
- \$1.7 million per 100 bbl per day change in light oil production.
- \$1.0 million per 100 bbl per day change in heavy oil production.
- \$1.4 million per 100 bbl per day change in NGLs production.
- \$1.6 million per \$0.01 change in the United States dollar to Canadian dollar exchange rate.

### Capital Expenditures

Daylight invested \$49.8 million on its capital expenditure program for the three months ended December 31, 2006 compared to \$19.4 million in Q3 2006 and \$20.2 million in Q4 2005. During Q4 2006, Daylight completed a property acquisition for approximately \$32.7 million. Capital expenditures for the 2006 year were \$125.5 million compared to \$72.5 million in 2005.

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(000s)	Q4 2006	Q3 2006	Q4 2005	Year ended December 31, 2006	2005
Land and acquisitions	\$ 33,095	\$ 636	\$ 147	\$ 39,029	\$ 2,158
Geological and geophysical	1,920	1,247	2,257	8,005	6,144
Drill, complete and recomple	8,963	10,342	12,609	48,971	40,750
Equipping and facilities	5,783	7,133	5,202	29,526	23,487
Capital Expenditures	\$ 49,761	\$ 19,358	\$ 20,215	\$ 125,531	\$ 72,539
Conveyance to Trafalgar	-	(21,100)	-	(21,100)	-
Conveyance to Pegasus	-	-	-	(6,628)	-
Conveyance to Open Range	-	-	(14,636)	-	(14,636)
Net Capital Additions	\$ 49,761	\$ (1,742)	\$ 5,579	\$ 97,803	\$ 57,903

In 2006, Daylight drilled a total of 47 gross (27.6 net) wells with 98% success. This program provided production and reserve additions within the following core areas:

- West Central properties including Pine Creek, Kaybob, Fir and Windfall. For the year ended December 31, 2006 Daylight drilled 9 gross (4.5 net) natural gas wells.
- Peace River Arch properties include Red Earth, Cecil, Beaverlodge, Sinclair and Elmworth. In 2006 Daylight drilled 8 gross (2.8 net) wells comprised of 7 gross (2.7 net) light oil wells and 1 gross (0.1 net) natural gas wells.
- Eastern properties include Wildmere, Bon Accord, Norris, Chigwell, Calling Lake and Chipman. During 2006 Daylight drilled 30 gross (20.3 net) wells comprised of 16 gross (13.3 net) heavy oil wells and 13 gross (6.0 net) natural gas wells.

### Investments

Entity	Symbol	Number of Shares	Cost or Equity Value	Market Value
Avery Resources Inc.	ARY	21,300,000	\$ 10,802	\$ 12,993
Trafalgar Energy Ltd.	TFL	740,240	2,976	3,035
Pegasus Oil & Gas Inc.	POG.A	2,440,000	4,720	6,832
Balance, December 31, 2006			\$ 18,498	\$ 22,860

In conjunction with the Sequoia acquisition in Q3 2006, Daylight acquired approximately 38% of the basic (46% of the diluted) issued and outstanding common shares of Avery Resources Inc. ("Avery"), a Calgary-based junior exploration company actively pursuing opportunities in Australia. Avery completed an equity issuance in November 2006 which Daylight did not participate in thereby changing Daylight's ownership in Avery to 28% of the basic common shares outstanding. In addition to the 21,300,000 common shares, Daylight also holds 8,400,000 warrants. Each warrant entitles Daylight to acquire one common share of Avery at a price of \$0.50 per share until November 24, 2007. Daylight accounts for this investment using the equity method. Avery is a public company trading on the TSX Venture Exchange under the symbol ARY. On December 29, 2006, Avery common shares closed at \$0.61. As at December 31, 2006, the market value of this investment is approximately \$13.0 million.

On the completion of the Arrangement on September 21, 2006, Daylight contributed non-core assets in Grouard and Cypress areas based on their fair-value, resulting in the transfer of \$21.1 million of property and related asset retirement obligations of \$2.2 million to Trafalgar. Daylight owns 740,240 common shares of Trafalgar which is 7% of the issued and outstanding common shares of Trafalgar at December 31, 2006. The Trust accounts for its investment in Trafalgar at cost. Trafalgar is a public company trading on the Toronto Stock Exchange under the symbol TFL. On December 29, 2006 the Trafalgar common shares closed at \$4.10. As at December 31, 2006, the market value of this investment is approximately \$3.0 million.

On June 23, 2006, Daylight closed a transaction with Pegasus Oil & Gas Inc. ("Pegasus"), whereby Daylight contributed non-core assets in Sunrise, Hines Creek and 50% of its interest in Chigwell valued at \$6.0 million to Pegasus in exchange for 1,840,000 class A common shares of Pegasus and a \$1.4 million promissory note. Immediately prior to this transaction, Daylight also participated in the initial private placement of Pegasus and contributed \$120,000 in exchange for 600,000 class A common shares. At December 31, 2006 300,000 of the class A common shares were held in escrow with 150,000 class A common shares being released on each of June 29, 2007 and December 29, 2007. Daylight owns a total



of 2,440,000 Class A common shares of Pegasus which is 12% of the issued and outstanding Class A common shares outstanding at December 31, 2006. The Trust accounts for its investment in Pegasus at cost. Pegasus is a public company trading on the TSX Venture Exchange under the symbols POG.A and POG.B. On December 29, 2006, the class A shares closed at \$2.80. As at December 31, 2006, the market value of this investment is approximately \$6.8 million.

### Distributions

During the year ended December 31, 2006, Daylight declared four cash distributions totalling \$57.0 million (\$0.78 per Trust Unit) after the Sequoia acquisition and eight monthly cash distributions totalling \$70.9 million (\$1.12 per DET Unit) prior to the acquisition. Daylight also distributed securities of Trafalgar Energy Ltd. ("Trafalgar") with a deemed fair value of \$0.17 per DET unit and \$0.21 per Sequoia unit. During the same period in 2005 Daylight declared twelve monthly cash distributions totalling \$72.6 million (\$1.50 per DET Unit) and also distributed securities of Open Range Energy Corp. ("Open Range") which was created in conjunction with the Tempest acquisition. On November 30, 2005, Daylight distributed 0.10 Open Range common shares and 0.02 Open Range Arrangement Warrants, with a combined deemed fair value of \$0.31 per DET Unit, to each trust unit equivalent holder. The Open Range securities were distributed on a trust unit equivalent basis which included unitholders, exchangeable shareholders and convertible debentureholders. Due to the timing of the Sequoia transaction, distributions for September were paid on units issued to the former unitholders of Sequoia, yet cash flow from the Sequoia properties was only recorded effective September 21, 2006. On a proforma basis, if the Sequoia transaction had been completed on September 1, 2006, the payout ratio would have been 88% for Q3 2006 and 90% for YTD 2006.

Daylight's management and the Board of Directors continually monitor the distribution level in relation to forecast net cash flow, debt levels and capital expenditure plans. Commodity prices and production volumes are critical variables in determining cash flow and changes in these two items have a material impact on cash flow and distributions.

As part of the Arrangement, Daylight implemented a Premium Distribution Reinvestment and Optional Trust Unit Purchase Plan ("Premium DRIP™") for eligible unitholders. On distribution payment dates eligible Premium DRIP™ unitholders may receive in lieu of the cash distribution that unitholders are otherwise entitled to receive in respect of their units, a cash payment equal to 102% of such amount.

Unitholders may also reinvest their cash distributions in additional trust units at a price that is 95% of the average market price for the Pricing Period. The Pricing Period refers to the period beginning on the later of the 21<sup>st</sup> business day preceding the distribution payment date and the second business day following the record date applicable to that distribution payment date, and ending on the second business day preceding the distribution payment date. Eligible Premium DRIP™ unitholders may also make optional cash payments on this date to purchase additional trust units at a price that is equal to the average market price for the Pricing Period. During the year ended December 31, 2006 Daylight issued 1,898,758 trust units from treasury for the Premium DRIP™ in lieu of cash distributions totalling \$19.5 million. Daylight also issued 91 units through the optional cash purchase plan.

On August 9, 2005, Daylight announced the implementation of the Distribution Reinvestment and Optional Trust Unit Purchase Plan ("DRIP") for eligible unitholders of the Trust. On distribution payment dates, eligible DRIP unitholders may reinvest their cash distributions in additional trust units at a price that is 95% of the 10 day weighted average trading price of Daylight units. Eligible DRIP unitholders may also make optional cash payments on this date to purchase additional trust units at a price that is equal to the 10 day weighted average trading price of Daylight units. During the year ended December 31, 2006, Daylight issued 259,326 (2005 - 80,553) DET trust units from treasury for the DRIP in lieu of cash distributions totalling \$2.8 million (2005 - \$0.1 million).

**Liquidity and Capital Resources**

(000s)	<b>December 31, 2006</b>	September 30, 2006	December 31, 2005
Bank debt	<b>\$ 349,336</b>	\$ 287,392	\$ 123,455
Working capital deficiency (excluding bank debt)	<b>15,561</b>	46,877	26,575
	<b>364,897</b>	334,269	150,030
Market value of investments	<b>(22,860)</b>	(20,500)	-
	<b>342,037</b>	313,769	150,030
Convertible debentures	<b>3,515</b>	3,510	9,219
Capital lease obligation - long term portion	<b>857</b>	1,855	-
Non-controlling interest - exchangeable shares	-	-	19,422
Unitholders' equity	<b>\$ 617,622</b>	\$ 917,369	\$ 535,846

At December 31, 2006, Daylight had \$349 million outstanding on its credit facilities which provide up to \$380 million and are subject to semi-annual review by the banking syndicate. The credit facilities include \$310 million available under a revolving term credit facility with a syndicate of banks and a \$70 million bridge facility that matures May 31, 2007. The market value of Daylight's investments is based on the closing trading value of the related securities at the end of the periods and Daylight's ability to realize this value is subject to the changes in trading value of these securities. Daylight's working capital deficiency, excluding bank debt, at December 31, 2006 was \$15.6 million.

Management anticipates that Daylight will continue to have adequate liquidity to fund future working capital and forecasted capital expenditures during 2007 through a combination of cash flow, debt and equity. Cash flow used to finance these commitments may reduce the amount of cash distributions paid to unitholders. Major acquisitions will require the issuance of new equity in exchange for the equity of acquired entities such as the Flowing acquisition that closed on April 5, 2005, the Tempest acquisition that closed on November 30, 2005 and the Daylight Resources Trust transaction that closed on September 21, 2006.

**Trust Unit Information**

Daylight units trade on the Toronto Stock Exchange under the symbol "DAY.UN" and Daylight is a constituent of the S&P/TSX Income Trust Index and S&P/TSX Composite Index. A summary of Daylight's trading history on the TSX follows.

(per unit)	<b>Q4 2006</b>	Q3 2006	Q4 2005	Year ended December 31, <b>2006</b>	
				<b>2006</b>	2005
High	<b>\$ 14.58</b>	\$ 17.28	\$ 20.31	<b>\$ 20.33</b>	\$ 20.31
Low	<b>\$ 9.06</b>	\$ 12.15	\$ 16.55	<b>\$ 9.06</b>	\$ 13.94
Close	<b>\$ 10.21</b>	\$ 13.17	\$ 18.71	<b>\$ 10.21</b>	\$ 18.71
Average daily volume	<b>660,644</b>	235,236	257,723	<b>346,134</b>	242,081

As at December 31, 2006, Daylight had the following trust units and trust unit equivalents outstanding:

	Number
Trust Units	74,322,268
Convertible debentures (\$3,576,000 face value)	253,997
Restricted trust unit awards (557,533)	589,797
Performance trust unit awards (135,000)	142,812
Total Diluted	75,308,874



## DAYLIGHT RESOURCES TRUST

As at March 21, 2007, Daylight has the following trust units and trust unit equivalents outstanding:

	Number
Trust Units	76,542,074
Convertible debentures (\$3,576,000 face value)	253,997
Restricted trust unit awards (513,603)	572,621
Performance trust unit awards (212,500)	236,918
Total Diluted	77,605,610

### Commitments

The following is a summary of Daylight's contractual obligations and commitments, other than bank debt and risk management as at December 31, 2006:

	2007	2008	2009	2010	2011	Thereafter
Capital Lease	\$ 3,659	\$ 1,007	\$ -	\$ -	\$ -	\$ -
Operating Leases	7,216	7,312	4,438	2,692	1,536	7,546
Natural gas transportation	1,009	464	232	98	84	16
	\$ 11,884	\$ 8,783	\$ 4,670	\$ 2,790	\$ 1,619	\$ 7,562

Daylight enters into multiple contractual obligations as part of conducting day to day business. Material contractual obligations include bank debt, leases for office space, a drilling rig contract and commitments for natural gas transportation.

### Financial Instruments

Financial instruments comprise accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities and cash distributions payable. The fair values of these financial instruments approximate their carrying amounts due to their short-term maturities. The Trust's long-term debt bears interest at a floating market rate and accordingly, the fair market value approximates the carrying value. The convertible debentures outstanding at December 31, 2006, with a face value of \$3.6 million, had a fair value based on quoted market value of \$3.7 million. At December 31, 2006 the Trust recognized an unrealized gain on commodity derivative instruments of \$7.1 million with details of these instruments contained in the prior Gain (Loss) on Commodity Derivatives section.

### Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by Daylight is accumulated and communicated to Daylight's management as appropriate to allow timely decisions regarding required disclosure. Daylight's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual filings, that Daylight's disclosure controls and procedures for the years ended December 31, 2006 and 2005 are effective to provide reasonable assurance that material information related to Daylight, including its consolidated subsidiaries, is made known to them by others within those entities.

Daylight's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, internal controls over financial reporting related to the Trust, including its consolidated subsidiaries, to provide reasonable assurance regarding the reliability of the Trust's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Daylight's Chief Executive Officer and Chief Financial Officer are required to disclose herein any change in the Trust's internal control over financial reporting that occurred during the Trust's most recent interim period that has materially affected, or is reasonably likely to have materially affected, the Trust's control over financial reporting. During 2006, the Trust engaged external consultants to assist in documenting and assessing the Trust's design of internal controls over financial reporting. No material changes in the Trust's internal control over financial reporting were identified during the three months ended December 31, 2006, that has materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

It should be noted that while Daylight's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

### **Critical Accounting Estimates**

The significant accounting policies used by Daylight are disclosed in note 1 to the Consolidated Financial Statements for the years ended December 31, 2006 and 2005. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstance may result in actual results or changes to estimated amounts that differ materially from current estimates. The following discussion helps to assess the critical accounting policies and practises of Daylight and the likelihood of materially different results being reported.

### **Reserves**

Under the National Instrument 51-101 (NI 51-101) "Proved" reserves are defined as those reserves that can be estimated with a high degree of certainty to be recoverable. The level of certainty should result in at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated Proved reserves.

"Proved plus Probable" reserves are the most likely case and are based on a 50 percent certainty that they will equal or exceed the reserves estimated. The new standard provides for a more conservative evaluation of proved and probable reserves, particularly on new wells where production history has not yet been established.

These oil and gas reserve estimates are made using all available geological and reservoir data, as well as historical production data. All of Daylight's reserves were evaluated and reported on by an independent qualified reserves evaluator. However, revisions can occur as a result of various factors including: actual reservoir performance, changes in price and cost forecasts or a change in Daylight's plans. Reserve changes will impact the financial results as reserves are used in the calculation of depletion and are used to assess whether asset impairment occurs. Reserve changes also affect other non-GAAP measurements such as finding and development costs, recycle ratios and net asset value calculations.

### **Depletion**

Daylight follows the full cost method of accounting for oil and natural gas properties. Under this method, all costs related to the acquisition of, exploration for and development of oil and natural gas reserves are capitalized whether successful or not. Depletion of the capitalized oil and natural gas properties and depreciation of production equipment which includes estimated future development costs less estimated salvage values are calculated using the unit-of-production method based on production volumes in relation to estimated proved reserves.

An increase in estimated proved reserves would result in a reduction in depletion expense. A decrease in estimated future development costs would also result in a reduction in depletion expense.

### **Unproved Properties**

The cost of acquisition and evaluation of unproved properties are initially excluded from the depletion calculation. These properties are assessed to ascertain whether impairment in value has occurred. When proved reserves are assigned or a property is considered to be impaired, the cost of the property or the amount of the impairment will be added to the capitalized costs for the calculation of depletion.

### **Ceiling Test**

The ceiling test is a cost recovery test intended to identify and measure potential impairment of assets. An impairment loss is recorded if the sum of the undiscounted cash flows expected from the production of the proved reserves and the lower of cost and market of unproved properties does not exceed the carrying values of the petroleum and natural gas assets. An impairment loss is recognized to the extent that the



carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using the risk free rate. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment as a result of this ceiling test will be charged to operations as additional depletion and depreciation expense.

### ***Asset Retirement Obligations***

Daylight records a liability for the fair value of legal obligations associated with the retirement of petroleum and natural gas assets. The liability is equal to the discounted fair value of the obligation in the period in which the asset is recorded with an equal offset to the carrying amount of the asset. The liability then accretes to its fair value with the passage of time and the accretion is recognized as an expense in the financial statements. The total amount of the asset retirement obligation is an estimate based on Daylight's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total amount of the estimated cash flows required to settle the asset retirement obligation, the timing of those cash flows and the discount rate used to calculate the present value of those cash flows are all estimates subject to measurement uncertainty. Any change in these estimates would impact the asset retirement liability and the accretion expense.

### ***Acquisitions***

Acquisitions as disclosed in note 2 to the Consolidated Financial Statements have been accounted for by the purchase method using fair values. The determination of fair value involves numerous estimates. The valuation of petroleum and natural gas assets is based on Daylight's estimate of proved plus probable reserves using estimated forecasted prices at the time of the transaction, plus an estimate of unproved properties. Management also estimates the fair value of other assets and liabilities in these transactions and the balances for tax pools. This valuation could differ materially by altering the various assumptions which would have impacted the composition of the balance sheet.

### ***Income Taxes***

The determination of income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

### ***Other Estimates***

The accrual method of accounting requires management to incorporate certain estimates including estimates of revenues, royalties and operating costs as at a specific reporting date but for which actual revenues and costs have not yet been received. In addition, estimates are made on capital projects which are in progress or recently completed where actual costs have not been received by the reporting date. Daylight obtains the estimates from the individuals with the most knowledge of the activity and from all project documentation received. The estimates are reviewed for reasonableness and compared to past performance to assess the reliability of the estimates. Past estimates are compared to actual results in order to make informed decisions on future estimates.

### ***Anticipated Changes in Accounting Principles During 2007***

During 2006, Daylight commenced a review of the new CICA Handbook section 3855 "Financial Instruments – Recognition and Measurement", section 1530 "Comprehensive Income" and section 3865 "Hedges" that deal with the recognition and measurement of financial instruments at fair value and comprehensive income. The new standards are intended to harmonize Canadian standards with United States and international accounting standards. The new standards are effective for annual and interim periods in fiscal years beginning on or after October 1, 2006. These new standards will impact Daylight in 2007 and are currently being review to assess their impact.

### **Risks and Uncertainties**

Daylight is subject to multiple business risks that are similar to other entities involved in the conventional energy trust sector. Daylight's financial position, results of operations, cash flows and distributions to unitholders are directly impacted by the following factors:

For a detailed discussion of Risks and Uncertainties, refer to the Trust's Annual Information Form, filed on SEDAR at [www.sedar.com](http://www.sedar.com).

### ***Volatility of Oil and Natural Gas Prices***

Operational results and the financial condition of Daylight will be dependent on the prices received for oil and natural gas production. Oil and natural gas prices have fluctuated widely during recent years and are determined by economic and in the case of oil prices, political factors. Supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions impact prices. Any movement in oil and natural gas prices could have an effect on Daylight's financial condition and therefore on the cash available to be distributed to unitholders. Daylight may manage the risk associated with changes in commodity prices by entering into oil or natural gas price hedges. If Daylight hedges its commodity price exposure, it will forego the benefits it would otherwise experience if commodity prices were to increase. In addition, commodity hedging activities could expose Daylight to losses. To the extent that Daylight engages in risk management activities related to commodity prices, it will be subject to credit risks associated with counterparties contracted with.

### ***Variations in Interest Rates and Foreign Exchange Rates***

An increase in interest rates would result in an increase in the amount Daylight pays to service debt, which could result in a decrease in distributions to unitholders, as well as impact the market price of the trust units.

World oil prices are quoted in United States dollars and the price received by Canadian producers is therefore affected by the Canadian/U.S. dollar exchange rate that may fluctuate over time. A material increase in the value of the Canadian dollar may negatively impact Daylight's net production revenue.

To the extent that Daylight engages in risk management activities related to foreign exchange rates, it will be subject to credit risk associated with the contract counterparties. The increase in the exchange rate for the Canadian dollar and future Canadian/United States exchange rates will impact the future value of reserves as determined by Daylight's independent evaluators and may impact future distributions.

### ***Reserve Estimates***

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves and cash flows to be derived therefrom, including many factors beyond Daylight's control. The reserve and associated cash flow information represents estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary. Daylight's actual production, revenues and development and operating expenditures with respect to reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices may result in variations in the estimated reserves and such variations could be material.



In accordance with applicable securities laws, Daylight's independent petroleum engineering firm has used both constant and forecast price and cost estimates in calculating reserve quantities. Actual future net cash flows will be affected by other factors such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flows derived therefrom will vary from the estimates contained in the engineering report, and such variations could be material. The engineering report is based in part on the assumed success of activities Daylight intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the engineering report will be reduced to the extent that such activities do not achieve the level of success assumed.

### ***Depletion of Reserves***

Distributions of income from Daylight properties, absent commodity price increases or cost effective acquisition and development activities, will decline over time in a manner consistent with declining production from typical oil, natural gas and natural gas liquids reserves. Daylight will not be reinvesting cash flow in the same manner as other industry participants as Daylight conducts only minimal exploratory activities; nor to the same extent as other industry participants as one of Daylight's main objectives is to maximize long-term distributions. Accordingly, absent capital injections, production levels and reserves will decline and the level of income available for distributions will be reduced.

Future oil and natural gas reserves and production, and therefore Daylight's cash flows, will be highly dependent on Daylight's success in exploiting its reserve base and acquiring additional reserves. Without reserve additions through acquisition or development activities, reserves and production will decline over time as reserves are exploited.

To the extent that external sources of capital, including the issuance of additional trust units become limited or unavailable, Daylight's ability to make the necessary capital investments to maintain or expand oil and natural gas reserves will be impaired. To the extent that Daylight requires the use of cash flow to finance capital expenditures or property acquisitions, the level of income available for distributions will be reduced.

There can be no assurance that Daylight will be successful in developing or acquiring additional reserves on terms that meet its investment objectives.

### ***Environmental Concerns***

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Daylight's operating entities to incur costs to remedy such discharge. Although Daylight believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect Daylight's financial condition, results of operations or prospects.

### ***Operational Matters***

Continuing production from a property, and to some extent the marketing of production therefrom, depend upon many factors, including the ability of the operator of the property. To the extent the operator fails to perform these functions properly, revenue may be reduced. Payments from production generally flow through the operator and there is a risk of delay and additional expense in receiving such revenues if the operator becomes insolvent. Although satisfactory title reviews are generally conducted in accordance with

industry standards, such reviews do not guarantee or certify that a defect in the chain of title may not arise to defeat Daylight's or its subsidiaries claim to certain properties. Any such circumstances could impair the ability of Daylight Energy to satisfy its obligations or otherwise reduce the amount received by Daylight.

### ***Insurance***

Daylight's involvement in the exploration for and development of oil and natural gas properties may result in Daylight becoming subject to liability for pollution, blowouts, property damage, personal injury or other hazards. Although, prior to drilling, Daylight's operating entities will obtain insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, Daylight's operating entities may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to Daylight. The occurrence of a significant event that was not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Daylight's operating subsidiaries' financial position, results of operations or prospects and will reduce income otherwise distributable.

### ***Royalties***

Daylight's production and related Crown royalty expense is primarily generated from our properties within the province of Alberta. Crown royalty rates are subject to change and a change may have a significant impact on Daylight's cash flow. On February 16, 2007, the Alberta Government announced that a review of the province's royalty and tax regime (including income tax and freehold mineral rights tax) pertaining to oil, gas and oil sands will be conducted by a panel of experts, with the assistance of individual Albertans and key stakeholders. The purpose of this process is to ensure that Albertans are receiving a fair share from energy development through royalties, taxes and fees. The issues to be reviewed during this examination process are: (i) undertaking a comparison of Alberta's royalty system to other oil and gas producing jurisdictions, taking into account investment economics and industry returns and risks in Alberta; (ii) whether Alberta's royalty system is sufficiently sensitive to market conditions; (iii) whether the current revenue minus cost system for oil sands royalties is optimal; (iv) which programs built into the existing royalty system should be retained or strengthened, and which should be adapted or eliminated; (v) how the tax treatment of the oil and gas sector compares to other sectors and jurisdictions; (vi) the economic and fiscal impacts of any possible changes to the royalty and corporate tax structures; and (vii) how existing resource development should be treated if changes are to be made to the fiscal regime. The review panel is to provide a final report that will be presented to the Minister of Finance by August 31, 2007.

### ***Changes in Legislation***

Income tax laws, or other laws or government incentive programs relating to the oil and gas industry, such as the treatment of mutual fund trusts and resource taxation, may in the future be changed or interpreted in a manner that adversely affects Daylight and the unitholders. Tax authorities having jurisdiction over Daylight or unitholders may disagree with how Daylight calculates its income for tax purposes or could change administrative practises to the detriment of Daylight or its unitholders.

Daylight intends to continue to qualify as a mutual fund trust for purposes of the Income Tax Act (Canada). Daylight may not, however, always be able to satisfy any future requirements for the maintenance of mutual fund trust status. Should Daylight's status as a mutual fund trust be lost or successfully challenged by a relevant tax authority, certain adverse consequences may arise for Daylight and its unitholders. Some of the significant consequences of losing mutual fund trust status are as follows:

- Daylight would be taxed on certain types of income distributed to unitholders, including income generated by the royalties held. Payment of this tax may have adverse consequences for some unitholders, particularly unitholders that are not residents of Canada and residents of Canada that are otherwise exempt from Canadian income tax.
- Daylight would cease to be eligible for the capital gains refund mechanism available under Canadian tax laws if it ceased to be a mutual fund trust.



- Trust units held by unitholders that are not residents of Canada would become taxable Canadian property. These non-resident holders would be subject to Canadian income tax on any gains realized on a disposition of trust units held by them.
- Trust units would not constitute qualified investments for registered retirement savings plans ("RRSPs"), registered retirement income funds ("RRIFs"), registered education savings plans ("RESPs") or deferred profit sharing plans ("DPSPs"). If, at the end of any month, one of these exempt plans holds Trust Units that are not qualified investments, the plan must pay a tax equal to 1% of the fair market value of the trust units at the time the trust units were acquired by the exempt plan. An RRSP or RRIF holding non-qualified trust units would be subject to taxation on income attributable to the trust units. If an RESP holds non-qualified trust units, it may have its registration revoked by the Canada Revenue Agency.

Daylight may take certain measures in the future to the extent considered necessary to ensure that status as a mutual fund trust is maintained. These measures could be adverse to certain holders of trust units, particularly "non-residents" of Canada as defined in the Income Tax Act (Canada).

### ***Taxation of Daylight Energy***

Daylight Energy is subject to taxation in each taxation year on its income for the year, after deducting certain payments made to Daylight to the extent that there are not sufficient resource pool deductions, capital cost allowance or utilization of prior years non-capital losses to reduce taxable income to zero. Daylight Energy intends to deduct, in computing its income for tax purposes, the full amount available for deduction in each year associated with the income tax resource pools, undepreciated capital cost ("UCC") and non-capital losses carried forward, if any, plus resource pools and UCC created by capital expenditures of Daylight Energy. If there are not sufficient resource pools, UCC and non-capital losses carried forward to shelter the income of Daylight Energy, then cash taxes would be payable by Daylight Energy. In addition, there can be no assurance that taxation authorities will not seek to challenge certain amounts. If such a challenge were to succeed against Daylight Energy, it could materially adversely affect the amount of distributable cash available.

The Trust Indenture provides that an amount equal to the taxable income of Daylight will be distributed each year to unitholders in order to reduce Daylight's taxable income to zero.

On October 31, 2006, the Federal Minister of Finance announced proposals (the "October 31, 2006 Proposals") to amend the *Tax Act* to apply a tax on distributions from publicly-traded income trusts. Under the October 31, 2006 Proposals, existing income trusts will be subject to the new measures commencing in their 2011 taxation year, following a four-year grace period. The Federal Minister of Finance has issued a Notice of Ways and Means Motion to Amend the *Tax Act*, but it is not known at this time if or when the proposal will be enacted by Parliament.

In simplified terms, under the proposed tax plan, distributions to unitholders that had previously been provided without taxes or withholdings will become subject to a new tax at the income trust level. The income distributions to Canadian taxable individual unitholders will be treated as dividends from a Canadian corporation and would be eligible for the dividend tax credit. Income distributions to corporations resident in Canada will be eligible for full deduction as tax free intercorporate dividends. Tax-deferred accounts (Registered Retirement Savings Plans, Registered Retirement Income Funds and Canadian Pension Funds) will continue to pay no tax on distributions received. Non-resident unitholders will be taxed on distributions at the non-resident withholding tax rate for dividends. The net impact on Canadian taxable investors is expected to be minimal because they may take advantage of the dividend tax credit. Distributions to tax-deferred accounts and to non-residents will be negatively affected since these distributions will be subject to the distribution tax at the trust level but the recipients will not be eligible for the dividend tax credit which is available to Canadian taxable investors.

Given the grace period before existing trusts will be taxed, the Trust has an opportunity to examine its strategy, and if warranted, modify it to provide the best possible return for unitholders. The grace period applies limitation thresholds on the issuance of new equity or securities convertible into new equity from October 31, 2006 to December 31, 2010 and issuances exceeding these thresholds may cause an earlier expiry of the grace period. Unitholders also have an opportunity to arrange their investments to minimize the impact of the proposed tax changes on their portfolios. Daylight's high quality tax pools of over \$750

million at December 31, 2006 will be available to provide significant shelter from cash taxes payable beyond the expiry of the grace period available to the Trust. The effect of the proposed tax changes on the Trust is yet to be determined and the Trust continues to evaluate the impact of the proposed measures on net income, cash flows and the valuation impact on long-lived assets such as goodwill, all of which could be material.

If enacted, the proposals would apply to the Trust effective January 1, 2011. As of December 31, 2006, the tax proposals had not been substantively enacted.

### ***Debt Service***

Daylight Energy may, from time to time, finance a significant portion of its operations through debt. Amounts paid in respect of interest and principal on debt incurred by Daylight Energy may impair Daylight Energy's ability to satisfy its obligations to Daylight. Variations in interest rates and scheduled principal repayments could result in significant changes in the amount required to be applied to debt service before payment by Daylight Energy of its obligation to Daylight. Ultimately, this may result in lower levels of distributable cash.

Pursuant to its credit facilities, Daylight Energy is restricted from making distributions to Daylight, including payments of principal and interest in the following circumstances: (i) after a demand has been made under the facility; (ii) after a default or event of default has occurred under the facility or if the borrowings thereunder exceed the borrowing base established from time to time by the lender; and (iii) if such distribution would result in a default or event of default under the facility. This may restrict the ability of Daylight Energy to pay Daylight, and therefore may limit or eliminate cash available for distribution.

Lenders will be provided with security over all of the assets of Daylight Energy. If Daylight Energy becomes unable to pay its debt service charges or otherwise commits an event of default such as bankruptcy, a lender may foreclose on or sell the assets of Daylight Energy.

### ***Delay in Cash Distributions***

In addition to the usual delays in payment by purchasers of oil and natural gas to the operators of the properties, and by the operator to Daylight Energy, payments between any of such parties may also be delayed by restrictions imposed by lenders, delays in the sale or delivery of products, delays in the connection of wells to a gathering system, blowouts or other accidents, recovery by the operator of expenses incurred in the operation of the properties or the establishment by the operator of reserves for such expenses.

### ***Reliance on Management***

Unitholders will be dependent on the management of Daylight Energy in respect of the administration and management of all matters relating to its operations. Daylight Energy, as of December 31, 2006, operated approximately 75% of total daily production. Investors who are not willing to rely on the management of Daylight Energy should not invest in the trust units, exchangeable shares and/or convertible debentures.

### ***Expansion of Operations***

The operations and expertise of management are currently focused on conventional oil and gas production and development in the Western Canadian Sedimentary Basin. In the future, Daylight may acquire oil and gas properties outside this geographic area. In addition, the Trust Indenture does not limit Daylight's activities to oil and gas production and development, and Daylight could acquire other energy related assets, such as oil and natural gas processing plants or pipelines. Expansion activities into new areas may present new additional risks or alternatively, significantly increase the exposure to one or more of the present risk factors which may result in future operational and financial conditions being adversely affected.

### ***Net Asset Value***

Daylight's net asset value from time to time will vary dependent upon a number of factors beyond the control of management, including oil and gas prices. The trading prices of the trust units from time to time is also determined by a number of factors which are beyond the control of management and such trading prices may be greater than Daylight's net asset value.



### ***Additional Financing***

In the normal course of making capital investments to maintain and expand Daylight's oil and gas reserves, additional trust units may be issued from treasury which may result in a decline in production per trust unit and reserves per trust unit. Additionally, from time to time Daylight may issue trust units from treasury in order to reduce debt and maintain a more optimal capital structure. Conversely to the extent that external sources of capital, including the issuance of additional trust units become limited or unavailable, Daylight's ability to make the necessary capital investments to maintain or expand oil and gas reserves will be impaired. To the extent that Daylight is required to use cash flow to finance capital expenditures or property acquisitions or to pay debt service charges or to reduce debt, the level of income available for distributions will be reduced.

### ***Competition***

There is strong competition relating to all aspects of the oil and gas industry. There are numerous trusts in the oil and gas industry, who are competing for the acquisitions of properties with longer life reserves and properties with exploitation and development opportunities. As a result of such increasing competition, it will be more difficult to acquire reserves on beneficial terms. Daylight also competes for reserve acquisitions and skilled industry personnel with a substantial number of other oil and gas companies and trusts, many of which have significantly greater financial and other resources.

### ***Return of Capital***

Trust units will have no value when Daylight's oil and gas properties can no longer be economically produced and, as a result, cash distributions do not represent a "yield" in the traditional sense and are not comparable to bonds or other fixed yield securities, where investors are entitled to a full return of the principal amount of debt on maturity in addition to a return on investment through interest payments. Distributions represent a combination of return of unitholders initial investment and a return on unitholders initial investment.

Unitholders have a limited right to require Daylight to repurchase their trust units, which is referred to as a redemption right. It is anticipated that the redemption right will not be the primary mechanism for unitholders to liquidate their investment. The right to receive cash in connection with a redemption is subject to limitations.

### ***Nature of Trust Units***

Trust units do not represent a traditional investment in the oil and natural gas sector and should not be viewed as shares in Daylight Energy. Trust units represent a fractional interest in the Trust. As holders of trust units, unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. Daylight's sole assets are investments in Daylight Energy. The price per trust unit is a function of anticipated distributable cash, underlying assets and management's ability to effect long-term growth in value. The market price of the trust units will be sensitive to a variety of market conditions including, but not limited to, interest rates and Daylight's ability to acquire suitable oil and natural gas properties. Changes in market conditions may adversely affect the trading price of the trust units.

The trust units are not "deposits" within the meaning of the Canada Deposit Insurance Corporation Act (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, Daylight is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on nor intend to carry on the business of a trust company.

### ***Exchangeable Shares***

An investment in exchangeable shares should be considered speculative due to the fact that adjustments to the exchange ratio are made assuming reinvestment of distributions or dividends, as applicable, at the prevailing market price of a trust unit at the time at which any such distributions are made on the trust units or any such dividends are paid on the exchangeable shares. As a result, the cumulative return on an investment in exchangeable shares may be higher or lower than that on an investment in trust units over a comparable period.

### ***Unitholder Limited Liability***

The Trust Indenture provides that no unitholder will be subject to any liability in connection with Daylight or its obligations and affairs and, in the event that a court determines unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of Daylight assets. Pursuant to the Trust Indenture, Daylight will indemnify and hold harmless each unitholder from any costs, damages, liabilities, expenses, charges and losses suffered by a unitholder resulting from or arising out of such unitholder not having such limited liability.

The Trust Indenture provides that all written instruments signed by or on behalf of Daylight must contain a provision to the effect that such obligation will not be binding upon unitholders personally. Personal liability may also arise in respect of claims against Daylight that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability of this nature arising is considered unlikely.

Daylight's operations will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability on the unitholders for claims.

In addition, the Income Trust Liability Act (Alberta) was proclaimed in force in Alberta on June 30, 2004. The Income Trust Liability Act (Alberta) provides that the beneficiary of a trust that is (a) created by a trust instrument governed by the laws of Alberta, and (b) a reporting issuer as defined in the Securities Act (Alberta), is not liable as a beneficiary for any act, default, obligation or liability of the trustee.

### ***Stability Rating***

Daylight does not have a stability rating and has no current plans to apply for a stability rating.

### ***Non-Resident Ownership of Trust Units***

In order for Daylight to maintain its status as a mutual fund trust under the Income Tax Act (Canada), it must not be established or maintained primarily for the benefit of non-residents within the meaning of the Income Tax Act (Canada). The Trust Indenture provides that if at any time Daylight become aware that the beneficial owners of 45% or more of the trust units then outstanding are or may be non-residents or that such a situation is imminent, Daylight shall take such action as may be necessary to carry out the foregoing intention.

### ***Regulatory***

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. Daylight's operations may require licenses from various governmental authorities. There can be no assurance that Daylight will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at planned projects.

### ***Maintenance of Distributions***

Daylight adds to its oil and natural gas reserves primarily through development and acquisitions with only a small percentage of the capital directed to exploration. As a result, future oil and natural gas reserves are highly dependent on Daylight's operating entities success in exploiting existing properties and acquiring additional reserves. Daylight also distributes the majority of its net cash flow to unitholders rather than reinvesting it in reserve additions. Accordingly, if external sources of capital, including the issuance of additional trust units, become limited or unavailable on commercially reasonable terms, Daylight's operating entities ability to make the necessary capital investments to maintain or expand oil and natural gas reserves will be impaired. To the extent that Daylight's operating entities are required to use cash flow to finance capital expenditures or property acquisitions, the level of cash flow available for distribution to unitholders will be reduced. Additionally, Daylight cannot guarantee that it will be successful in developing additional reserves or acquiring additional reserves on terms that meet its investment objectives. Without these reserve additions, Daylight's reserves will deplete and as a consequence, either production from, or the average reserve life of, Daylight properties will decline. Either decline may result in a reduction in the value of trust units and in a reduction in cash available for distributions to unitholders.



### ***Kyoto Protocol***

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so called "greenhouse natural gases". Daylight's exploration and production facilities and other operations and activities emit a small amount of greenhouse natural gases which may subject Daylight to legislation regulating emissions of greenhouse natural gases. The Government of Canada has put forward a Climate Change Plan for Canada which suggests further legislation will set greenhouse natural gases emission reduction requirements for various industrial activities, including oil and natural gas exploration and production. Future federal legislation, together with provincial emission reduction requirements such as those proposed in Alberta's Bill 37: Climate Change and Emissions Management, may require the reduction of emissions or emissions intensity produced by Daylight's operations and facilities. The direct or indirect costs of these regulations may adversely affect Daylight's business.

# DAYLIGHT RESOURCES TRUST

## Quarterly Information

Financial (in thousands of dollars, except unit, per unit and boe data)	2006				2005			2004	
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Oct. 21 to Dec. 31
Petroleum and natural gas revenues	\$ 92,715	\$ 69,877	\$ 68,554	\$ 66,187	\$ 85,615	\$ 76,445	\$ 60,529	\$ 53,984	\$ 17,377
Royalties	(17,414)	(13,269)	(13,985)	(12,455)	(15,753)	(13,188)	(10,506)	(10,340)	(3,662)
Realized gain (loss) on derivatives	91	(133)	-	-	(99)	(350)	59	-	-
Operating expenses	(21,319)	(15,901)	(15,286)	(14,848)	(13,580)	(12,981)	(13,184)	(12,328)	(4,335)
Transportation	(1,871)	(1,959)	(1,354)	(1,309)	(1,657)	(1,018)	(950)	(430)	(153)
Operating netback	52,202	38,615	37,929	37,575	54,526	48,908	35,948	30,886	9,227
Interest income	-	-	-	-	-	-	-	-	726
G&A – cash charge	(4,325)	(3,634)	(2,625)	(2,596)	(3,545)	(2,216)	(2,108)	(1,987)	(987)
Cash financial charges	(4,519)	(2,695)	(2,286)	(1,699)	(1,862)	(2,756)	(2,861)	(2,584)	(1,677)
Cash taxes	(84)	(44)	167	(255)	(652)	(224)	(347)	(244)	(92)
Cash flow (excluding Plan of Arrangement costs)	43,274	32,242	33,185	33,025	48,467	43,712	30,632	26,071	7,197
Per unit	0.59	0.71	0.79	0.80	1.33	1.37	1.02	0.95	0.36
– Basic	0.59	0.68	0.77	0.77	1.26	1.23	0.88	0.80	0.35
– Diluted									
Net income (loss)	(283,511)	(2,140)	15,735	12,093	25,447	20,525	12,201	5,887	1,045
Per unit	(3.88)	(0.05)	0.38	0.29	0.70	0.68	0.41	0.21	0.06
– Basic	(3.88)	(0.05)	0.38	0.29	0.69	0.63	0.40	0.21	0.06
– Diluted									
Cash distributions declared	43,008	31,844	26,663	26,407	24,316	17,023	16,284	14,962	9,777
Per unit	0.59	0.62	0.63	0.63	0.63	0.54	0.54	0.54	0.36
Payout ratio <sup>(1)</sup>	99%	n/a <sup>(1)</sup>	80%	80%	50%	39%	53%	57%	136%
Capital expenditures	49,761	19,358	21,034	35,378	20,215	23,851	14,086	14,387	5,057
Non-cash capital divestitures	-	(21,100)	(6,628)	-	(14,636)	-	-	-	(33,456)
Corporate acquisitions	-	527,691	-	-	116,509	-	61,000	-	587,164
Wells drilled – gross (net)	9 (1.8)	12 (9.2)	5 (1.0)	21 (15.6)	34 (21.7)	15 (6.9)	5 (3.4)	17 (8.6)	4 (2.1)
Market value of investments	22,860	20,500	5,783	-	-	-	-	-	-
Bank debt	349,336	287,392	165,114	162,190	123,455	124,185	131,755	101,850	89,220
Working capital deficiency	15,561	46,877	28,931	17,048	26,575	16,467	11,602	12,256	20,820
Total assets	1,114,085	1,424,236	833,821	845,746	841,254	689,297	676,212	610,970	615,486
Units outstanding (000s)									
Basic	74,322	71,863	42,209	41,861	40,806	33,767	30,113	27,904	27,119
Diluted	75,309	72,117	44,349	44,110	43,854	37,501	37,334	34,933	34,409
<b>Operations</b>									
Average daily production									
Natural gas (mcf/d)	80,991	57,926	59,452	56,012	54,438	54,096	57,890	58,875	58,264
Light oil (bbls/d)	4,455	3,172	2,855	2,575	2,368	2,527	2,292	2,721	2,671
Heavy oil (bbls/d)	2,796	2,760	2,579	2,701	2,460	2,096	1,937	-	-
NGLs (bbls/d)	1,449	756	740	677	814	785	771	892	846
Oil & NGLs (bbls/d)	8,700	6,688	6,174	5,953	5,642	5,408	5,000	3,613	3,517
Combined (boe/d)	22,199	16,342	16,083	15,288	14,715	14,424	14,648	13,426	13,228
Average prices received									
Natural gas (\$/mcf)	\$ 6.75	\$ 5.74	\$ 6.18	\$ 7.77	\$ 11.91	\$ 9.26	\$ 7.51	\$ 6.86	\$ 6.89
Light oil (\$/bbl)	60.07	74.23	71.78	65.55	63.40	68.98	62.80	56.49	44.29
Heavy oil (\$/bbl)	39.59	51.27	52.01	34.29	33.06	51.94	23.49	-	-
NGLs (\$/bbl)	49.53	67.79	63.05	60.50	58.79	56.56	52.71	46.35	45.34
Oil & NGLs (\$/bbl)	\$ 51.73	\$ 64.03	\$ 62.48	\$ 50.79	\$ 49.52	\$ 60.57	\$ 46.02	\$ 53.99	\$ 44.54
Combined (\$/boe)	\$ 45.40	\$ 46.48	\$ 46.84	\$ 48.10	\$ 63.24	\$ 57.61	\$ 45.41	\$ 44.68	\$ 42.37

<sup>(1)</sup> On a proforma basis, if the Sequoia transaction had been completed on September 1, 2006, the payout ratio would have been 88% for Q3 2006. See discussion in Distributions section for further details.

The 2004 financial results reflect the activities of Daylight from October 21, 2004 to December 31, 2004. Active oil and gas operations commenced subsequent to the Plan of Arrangement on November 30, 2004 and Operations information above applies to that one month period.

Dated March 21, 2007





## **CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2006

### MANAGEMENT'S RESPONSIBILITY STATEMENT

The consolidated financial statements of Daylight Resources Trust and all information in this report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include amounts that are based on estimates, which have been objectively developed by management using all relevant information. All financial and operating data in this report is consistent with the information in the consolidated financial statements.

Daylight Resources Trust maintains appropriate systems of internal control to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or misuse and financial records are properly maintained to provide reliable information for the preparation of financial statements. Daylight Resources Trust has effective disclosure controls and procedures to ensure timely and accurate disclosure of material information relating to the Trust which complies with the current requirements of Canadian securities legislation.

KPMG LLP, an independent firm of chartered accountants, has been engaged to examine the financial statements and provide their auditor's report. Their report is presented with the consolidated financial statements.

The directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee is comprised entirely of outside directors and meets regularly with management and with the Company's external auditors to discuss the results of their audit examination and to review issues related thereto. The external auditors have full access to the Audit Committee with and without the presence of management. The Audit Committee reviews the consolidated financial statements and Management's Discussion and Analysis and recommends their approval to the Board of Directors.

Signed "*Anthony Lambert*"

Signed "*Steve Nielsen*"

**Anthony Lambert**  
President and CEO

**Steve Nielsen**  
Vice President and CFO

Calgary, Alberta  
March 20, 2007



### AUDITORS' REPORT

To the Unitholders of Daylight Resources Trust

We have audited the consolidated balance sheets of Daylight Resources Trust as at December 31, 2006 and 2005 and the consolidated statements of income (loss) and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed "*KPMG LLP*"

**Chartered Accountants**

Calgary, Canada  
March 20, 2007

**Consolidated Balance Sheets**

As at December 31,

*(in thousands of dollars)*

	2006	2005
<b>Assets</b>		
Current assets		
Accounts receivable	\$ 58,802	\$ 61,371
Unrealized gain on derivatives (note 15)	7,063	-
Prepaid expenses and deposits	4,531	1,327
	70,396	62,698
Investments (note 3)	18,498	-
Petroleum and natural gas assets (note 4)	895,801	560,972
Deferred financing charges (note 9)	400	720
Goodwill (notes 2 and 5)	128,990	216,864
	\$ 1,114,085	\$ 841,254
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 68,146	\$ 80,672
Current portion of capital lease obligations (note 7)	3,318	-
Distributions payable	14,493	8,601
Current portion of bank debt (note 6)	39,336	-
	125,293	89,273
Bank debt (note 6)	310,000	123,455
Capital lease obligations (note 7)	857	-
Convertible debentures (note 8)	3,515	9,219
Asset retirement obligations (note 10)	23,294	18,179
Future taxes (note 14)	33,504	45,860
Non-controlling interest - exchangeable shares (note 11)	-	19,422
	496,463	305,408
<b>Unitholders' Equity</b>		
Unitholders' capital (note 12)	1,053,317	565,128
Contributed surplus (note 12)	562	2,936
Equity component of convertible debentures (note 8)	104	274
Deficit	(436,361)	(32,492)
	617,622	535,846
	\$ 1,114,085	\$ 841,254

Commitments (note 17)

See accompanying notes to consolidated financial statements.

**On behalf of the Board:**

Signed "Graham Wilson"  
Director

Signed "Fred Woods"  
Director



## DAYLIGHT RESOURCES TRUST

### Consolidated Statements of Income (Loss) and Deficit

Years ended December 31,

(in thousands of dollars, except per unit amounts)

	2006	2005
<b>Revenues</b>		
Petroleum and natural gas	\$ 297,333	\$ 276,573
Royalties	(57,123)	(49,787)
Gain (loss) on derivatives	6,024	(390)
	<b>246,234</b>	<b>226,396</b>
<b>Expenses</b>		
Operating	67,354	52,073
Transportation	6,493	4,055
General and administrative	34,032	12,792
Plan of arrangement costs (note 2)	4,808	-
Financial charges (note 9)	11,372	10,937
Loss on investment (note 3)	274	-
Depletion, depreciation and accretion	111,113	80,325
Write down of goodwill (note 5)	301,000	-
	<b>536,446</b>	<b>160,182</b>
<b>Income (loss) before taxes and non-controlling interest</b>	<b>(290,212)</b>	<b>66,214</b>
<b>Taxes (note 14)</b>		
Capital taxes	216	1,467
Future taxes (reduction)	(33,234)	(1,974)
	<b>(33,018)</b>	<b>(507)</b>
<b>Income (loss) before non-controlling interest</b>	<b>(257,194)</b>	<b>66,721</b>
<b>Non-controlling interest - exchangeable shares (note 11)</b>	<b>629</b>	<b>2,661</b>
<b>Net income (loss)</b>	<b>(257,823)</b>	<b>64,060</b>
Deficit, beginning of year	(32,492)	(8,732)
Distributions (note 12)	(146,046)	(87,820)
Deficit, end of year	\$ (436,361)	\$ (32,492)
<b>Net income (loss) per unit (note 12)</b>		
Basic	\$ (5.09)	\$ 2.06
Diluted	\$ (5.09)	\$ 1.99

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Cash Flows**

Years ended December 31,

*(in thousands of dollars)*

	2006	2005
<b>Cash provided by (used in):</b>		
<b>Operating</b>		
Net income (loss)	\$ (257,823)	\$ 64,060
Items not affecting cash:		
Depletion, depreciation and accretion	111,113	80,325
Write down of goodwill (note 5)	301,000	-
Non-controlling interest - exchangeable shares	629	2,661
Future taxes (reduction)	(33,234)	(1,974)
Non-cash financial charges (note 9)	173	874
Unit based compensation	20,851	2,936
Unrealized gain on derivatives	(6,066)	-
Equity loss on investments	274	-
Plan of arrangement costs settled with units	1,243	-
Asset retirement expenditures (note 10)	(6,968)	(4,010)
Change in non-cash operating working capital (note 13)	(18,087)	(11,653)
	<b>113,105</b>	<b>133,219</b>
<b>Financing</b>		
Bank debt	122,186	14,636
Issue of trust units, net of issue costs (note 12)	(2,828)	(2,336)
Cash distribution to unitholders	(99,672)	(67,942)
Repayments on obligation under capital lease	(540)	-
Change in non-cash financing working capital (note 13)	(307)	(704)
	<b>18,839</b>	<b>(56,346)</b>
<b>Investing</b>		
Petroleum and natural gas asset additions	(125,531)	(72,539)
Investment (note 3)	(120)	-
Corporate acquisition costs (note 2)	(4,921)	(628)
Change in non-cash investing working capital (note 13)	(1,372)	(3,706)
	<b>(131,944)</b>	<b>(76,873)</b>
Change in cash	-	-
Cash, beginning of year	-	-
<b>Cash, end of year</b>	<b>\$ -</b>	<b>\$ -</b>

Cash is defined as cash and cash equivalents.

See accompanying notes to consolidated financial statements.



## Notes to Consolidated Financial Statements

For the years ended December 31, 2006 and 2005

(Tabular amounts are stated in thousands of dollars except unit, share, and per unit amounts.)

Daylight Resources Trust (formerly Daylight Energy Trust – see note 2) ("Daylight" or the "Trust") is an open-ended, unincorporated investment trust governed by the laws of the Province of Alberta pursuant to a Trust Indenture. Valiant Trust Company has been appointed trustee under the Trust Indenture. The beneficiaries of the Trust are the holders of the Trust units ("unitholders").

The purpose of the Trust is to explore for, develop and hold interests in petroleum and natural gas properties, through investments in securities of subsidiaries and royalty interests in oil and natural gas properties. The business of the Trust is carried on by Daylight Energy Ltd. ("Daylight Energy") and its subsidiaries. The Trust owns 100% of the common shares of Daylight Energy. The activities of Daylight Energy are financed through internally generated cash flow and third party debt as described in note 6.

Pursuant to the terms of an agreement (the "NPI Agreement"), the Trust is entitled to a payment from Daylight Energy each month equal to the amount by which 99% of the gross proceeds from the sale of production exceed 99% of certain deductible expenditures as defined under the terms of the NPI Agreement. Deductible expenditures may include amounts, determined on a discretionary basis, to fund capital expenditures, to repay debt and to provide for working capital required to carry out the operations of Daylight Energy.

The Trust may declare payable to the unitholders all or any part of the net income of the Trust earned from the income generated under the NPI Agreement, and from any dividends paid on the common shares of Daylight Energy, less any expenses of the Trust, including interest on convertible debentures.

Daylight is involved in the exploitation, development and production of petroleum and natural gas in Alberta, British Columbia and Saskatchewan.

### 1. Significant Accounting Policies

The consolidated financial statements are stated in Canadian dollars have been prepared by management, in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Trust and its wholly owned subsidiaries. Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period. Actual results may differ materially from those estimates.

Specifically, the amounts recorded for depletion, depreciation and accretion of petroleum and natural gas assets and asset retirement obligations are based on estimates. The ceiling test is based on estimates of reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material.

All previously reported unit and per unit amounts have been retroactively restated to reflect the impact of the established 0.6642 units of Daylight for each unit of Daylight Energy Trust received under the Arrangement (see note 2(a)), unless specifically indicated otherwise.

### Principles of Consolidation

The consolidated financial statements include the accounts of the Trust, its subsidiaries and one partnership. Any reference to “the Trust” throughout these consolidated financial statements refers to the Trust and its subsidiaries. All inter-entity balances and transactions have been eliminated.

### Petroleum and Natural Gas Assets

Daylight follows the full cost method of accounting for petroleum and natural gas operations whereby all costs related to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized and accumulated in one cost centre as all operations are in Canada. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells, the cost of petroleum and natural gas production equipment, asset retirement costs and overhead charges related to exploration and development activities.

Daylight evaluates its petroleum and natural gas assets in each reporting period to determine that the costs are recoverable and the costs do not exceed the fair value of the properties. If the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying value of the petroleum and natural gas assets, the costs are considered recoverable. If the carrying value of the petroleum and natural gas assets is not considered to be recoverable, an impairment loss is recognized and charged against net income to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using a risk-free rate.

Proceeds from the disposition of petroleum and natural gas properties are applied against capitalized costs except for dispositions that would change the rate of depletion and depreciation by 20% or more, in which case a gain or loss would be recorded.

Depletion of petroleum and natural gas assets and depreciation of production equipment are calculated using the unit-of-production method, based on volumes of petroleum and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil, in relation to total estimated proved reserves calculated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities; and total capitalized costs, excluding undeveloped lands, plus estimated future development costs of proved undeveloped reserves, including future estimated asset retirement costs.

The cost of acquisition and evaluation of unproved properties are initially excluded from the depletion calculation. A separate impairment test is performed on these assets to determine whether the carrying value exceeds the fair value. Any excess in carrying value over fair value is an impairment. When proved reserves are assigned or a property is considered to be impaired, the cost of the property or the amount of the impairment will be added to the capitalized costs for the calculation of depletion.

### **Goodwill**

The Trust must record goodwill relating to a corporate acquisition when the total purchase price exceeds the fair value for accounting purposes of the net identifiable assets and liabilities of the acquired company. The goodwill balance is assessed for impairment annually at year-end or as events occur that could result in an impairment. Impairment is recognized based on the fair value of the reporting entity (consolidated Trust) compared to the book value of the reporting entity. If the fair value of the consolidated Trust is less than the book value, impairment is measured by allocating the fair value of the consolidated Trust to the identifiable assets and liabilities as if the Trust had been acquired in a business combination for a purchase price equal to its fair value. The excess of the fair value of the consolidated trust over the amounts assigned to the identifiable assets and liabilities is the fair value of the goodwill. Any excess of the book value of goodwill over this implied fair value of goodwill is the impairment amount. Impairment is charged to earnings in the period in which it occurs. Goodwill is stated at cost less impairment and is not amortized.

### **Asset Retirement Obligations**

Daylight recognizes the fair value of an Asset Retirement Obligation ("ARO") in the period in which it is incurred when a reasonable estimate of the fair value can be made. On a periodic basis, management will review these estimates and changes, if any, to the estimate will be applied on a prospective basis. The fair value of the estimated ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

### **Revenue Recognition**

Revenue associated with the sale of crude oil, natural gas and natural gas liquids ("NGLs") is recognized when legal title passes to the purchaser.

### **Transportation**

Costs paid by the Trust for the transportation of natural gas, crude oil, and NGLs from the wellhead to the point of title transfer are recognized when the transportation is provided.

### **Taxes**

Daylight is a taxable entity under the Canadian Income Tax Act ("Act") and is taxable only on income that is not distributed or distributable to its unitholders. Since Daylight distributes all of its taxable income (if any) to its unitholders and meets the requirements of the Act, no provision for income tax has been made in the Trust.

Daylight Energy and its wholly owned subsidiaries follow the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements of Daylight Energy and its wholly owned subsidiaries and their respective tax basis, using substantively enacted income tax rates expected to be in effect when the temporary differences are anticipated to reverse. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs.



### **Deferred Financing Charges**

Deferred financing charges include the unamortized cost of issuing the convertible debentures and the unamortized cost of establishing the revolving term facility. Amortization is provided on a straight-line basis over the term of the related debt and is included in financial charges for the year.

### **Joint Operations**

Daylight conducts development and production activities jointly with others. These financial statements only reflect Daylight's proportionate interest in such activities.

### **Cash and Cash Equivalents**

Daylight considers cash and investments with a maturity of three months or less to be cash equivalents.

### **Investments**

Investments are comprised of common shares of publicly traded companies. Investments in which the Trust exercises significant influence are accounted for using the equity method where the recorded amount of the investment is increased or decreased for the Trust's ownership percentage of the companies' net earnings or loss and reduced by dividends paid to the Trust. Investments in which the Trust does not exercise significant influence are accounted for at cost.

The Trust evaluates the carrying value of its investments at least annually or more frequently should economic events dictate. If there has been a decline in value of an investment, other than a temporary decline, the investment is written down to its market value and the impairment charged to net income.

### **Unit Based Compensation**

The Trust has established a unit award incentive plan for employees, officers, directors and other service providers. The Trust uses the fair value method for valuing unit based compensation. Under this method, compensation cost attributable to the unit awards are measured at the fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon settlement of the unit awards, the previously recognized value in contributed surplus will be recorded as an increase to Unitholders' capital.

### **Per Unit Information**

Basic income per unit is calculated using the weighted average number of units outstanding during the year adjusted for the impact of units to be issued on the conversion of exchangeable shares. Diluted income per unit is calculated using the treasury stock method to determine the dilutive effects of convertible debentures and grants under the unit award incentive plan.

### **Derivative Financial Instruments**

The Trust is exposed to market risks resulting from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. A variety of derivative instruments may be used by the Trust to reduce its exposure to fluctuations in commodity prices, foreign exchange rates, and interest rates. The fair values of these derivative instruments are based on an estimate of the amounts that would have been received or paid to settle these instruments prior to maturity given future market prices and other relevant factors. The Trust considers all of these transactions to be economic hedges, however, the majority of the Trust's contracts do not qualify or have not been designated as hedges for accounting purposes.

The Trust applies the fair value method of accounting by recording an asset or liability on the consolidated balance sheet and recognizing changes in the fair value of the instruments in the statement of income for the current year.

### Exchangeable Shares

The Trust must record non-controlling interest when exchangeable shares issued by a subsidiary of the Trust are transferable to third parties. Non-controlling interest on the consolidated balance sheet is recognized based on the fair value of the exchangeable shares upon issuance plus the accumulated earnings attributable to the non-controlling interest. Net income is reduced for the portion of earnings attributable to the non-controlling interest. As the exchangeable shares are converted to trust units, the non-controlling interest on the consolidated balance sheet is reduced by the cumulative book value of the exchangeable shares and Unitholders' capital is increased by the corresponding amount. As at December 31, 2006 there are no exchangeable share outstanding.

## 2. Corporate Acquisitions

### a) Sequoia Oil & Gas Trust

On September 21, 2006, a Plan of Arrangement (the "Arrangement") between Daylight Energy Trust ("DET"), Sequoia Oil & Gas Trust ("Sequoia"), and Trafalgar Energy Ltd. ("Trafalgar") was approved. As a result of the Arrangement, DET and Sequoia merged and certain interests in oil and natural gas properties were transferred to Trafalgar in exchange for common shares and arrangement warrants which were distributed to the DET and Sequoia Unitholders (see note 12(e)) with a portion of the Trafalgar common shares remaining with Daylight (see note 3).

Under the Arrangement each DET Unitholder received 0.6642 units of Daylight for each one DET unit held and Daylight Exchangeable Shareholders received 0.6642 units of Daylight for each DET unit the Exchangeable Shares held were equivalent to at the closing date. Under the Arrangement each Sequoia Unitholder received 0.8250 units of Daylight for each one Sequoia unit held. The DET Unitholders following the Arrangement hold in excess of 50% of the outstanding units of Daylight, resulting in a substantive change in ownership to the Sequoia net assets.

As a result, Daylight Energy is deemed to be the acquirer of Sequoia and consequently has accounted for the acquisition of Sequoia under the purchase method of accounting. The operations of Sequoia have been included with the results of DET commencing September 21, 2006. The fair values allocated to the net assets acquired are as follows:

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<b>Net assets acquired:</b>	
Petroleum and natural gas assets	\$ 347,823
Goodwill	213,126
Unrealized gain on derivatives	2,970
Investments	11,076
Working capital deficiency	(9,993)
Bank debt	(103,695)
Capital lease obligations	(4,715)
Asset retirement obligations	(12,380)
Future taxes	(20,878)
Total net assets acquired	\$ 423,334

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**Consideration:**

Trust units issued (27,475,423 units issued to Sequoia unitholders)	\$ 418,413
Transaction costs	4,921
Total purchase price	\$ 423,334

The above amounts are estimates made by management based on currently available information. Amendments may be made to the purchase equation as the cost estimates and tax balances are finalized.

b) Tempest Energy Corp.

On November 30, 2005, Daylight through its wholly owned subsidiary, Daylight Energy acquired all of the issued and outstanding shares of Tempest Energy Corp. ("Tempest"). As consideration, Daylight issued one trust unit for every 2.35 Tempest common shares, resulting in Daylight issuing 9,118,533 trust units. In conjunction with the acquisition, Midnight Oil Exploration Ltd. acquired certain interests in oil and gas properties from Tempest for approximately \$48 million. The operations of Tempest have been included with the results of the Trust commencing November 30, 2005. The transaction was accounted for by the purchase method, based on fair values as follows:

**Net assets acquired:**

Petroleum and natural gas assets	\$ 114,082
Goodwill	36,293
Working capital deficiency	(10,087)
Bank debt	(26)
Asset retirement obligations	(2,406)
Future taxes	(31,460)
Total net assets acquired	\$ 106,396

**Consideration:**

Trust units issued	\$ 106,083
Transaction costs	313
Total purchase price	\$ 106,396

c) Flowing Energy Corporation

On April 5, 2005, Daylight through its wholly owned subsidiary, Daylight Energy acquired all of the issued and outstanding shares of Flowing Energy Corporation ("Flowing"). As consideration, Daylight issued one trust unit, or exchangeable share equivalent, for every 13.45 Flowing common shares. This resulted in Daylight issuing 370,218 exchangeable shares with an exchange ratio of 1.06169 and 2,783,904 trust units. The operations of Flowing have been included with the results of the Trust commencing April 5, 2005. The transaction was accounted for by the purchase method, based on fair values as follows:



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### Net assets acquired:

Petroleum and natural gas assets	\$ 63,549
Bank debt	(19,573)
Unrealized loss on commodity derivatives	(2,101)
Working capital deficiency	(5,928)
Asset retirement obligations	(1,413)
Future taxes	(1,136)
Total net assets acquired	\$ 33,398

### Consideration:

Trust units issued	\$ 28,996
Non-controlling interest – exchangeable shares	4,087
Transaction costs	315
Total purchase price	\$ 33,398

### 3. Investments

Entity	Symbol	Number of Shares	Cost or Equity Value	Market Value
Avery Resources Inc.	ARY	21,300,000	\$ 10,802	\$ 12,993
Trafalgar Energy Ltd.	TFL	740,240	2,976	3,035
Pegasus Oil & Gas Inc.	POG.A	2,440,000	4,720	6,832
Balance, December 31, 2006			\$ 18,498	\$ 22,860

In conjunction with the transaction with Sequoia, Daylight acquired Sequoia's approximate 38% interest in the common shares of Avery Resources Inc. ("Avery") and accounts for the investment using the equity method. Avery completed an equity issuance in November 2006 which Daylight did not participate in thereby changing Daylight's ownership in Avery to approximately 28%. In addition to the 21,300,000 common shares, Daylight also holds 8,400,000 warrants. Each warrant entitles Daylight to acquire one common share of Avery at a price of \$0.50 per share until November 24, 2007. As at December 31, 2006 the market value of the investment in Avery was \$13.0 million. For the year ending December 31, 2006 the equity loss on the investment in Avery was \$0.3 million.

In conjunction with the Arrangement on September 21, 2006, Daylight transferred interests in certain oil and gas properties, based on their fair-values to Trafalgar, resulting in the transfer of \$21.1 million of property and related asset retirement obligations of \$2.2 million. In exchange, Trafalgar common shares and arrangement warrants were received of which Daylight retained 740,240 common shares with a value of \$3.0 million. The remaining common shares and arrangement warrants were distributed to DET securityholders and Sequoia unitholders (see note 12(e)). Daylight accounts for this investment at cost. As at December 31, 2006, the market value of this investment is approximately \$3.0 million.

On June 23, 2006, the Trust transferred interests in certain oil and gas properties valued at \$6.0 million, with associated asset retirement obligations of \$0.6 million, to Pegasus Oil & Gas Inc. ("Pegasus") in exchange for 1,840,000 Class A common shares valued at \$2.50 per share and a \$1.4 million, non-interest bearing promissory note. The note was secured by the oil and gas properties transferred to Pegasus, was due on December 1, 2006 and was paid in full on that date. Immediately prior to this transaction the Trust acquired 600,000 Class A common shares of Pegasus for \$0.1 million. At December 31, 2006, 300,000 of the Class A common shares were held in escrow with 150,000 Class A common shares being released on each of June 29, 2007 and December 29, 2007. The investment, composed of 2,440,000 Class A common

## DAYLIGHT RESOURCES TRUST

shares of Pegasus, is accounted for at cost. As at December 31, 2006 the market value of the investment in Pegasus was \$6.8 million.

### 4. Petroleum and Natural Gas Assets

	<b>Cost</b>	<b>Accumulated depletion and depreciation</b>	<b>Net book value</b>
Petroleum and natural gas properties	\$ 1,086,413	\$ 193,656	\$ 892,757
Other assets	4,438	1,394	3,044
Balance, December 31, 2006	\$ 1,090,851	\$ 195,050	\$ 895,801

	<b>Cost</b>	<b>Accumulated depletion and depreciation</b>	<b>Net book value</b>
Petroleum and natural gas properties	\$ 644,300	\$ 85,289	\$ 559,011
Other assets	2,570	609	1,961
Balance, December 31, 2005	\$ 646,870	\$ 85,898	\$ 560,972

During the year ended December 31, 2006, Daylight capitalized \$4.6 million (2005 - \$5.6 million) of general and administrative expenses related to exploration and development activities.

Future development costs of \$56.2 million (2005 - \$48.0 million) associated with proven reserves were included in the depletion and depreciation calculation. Future salvage value of production equipment and facilities of \$38.4 million (2005 - \$25.9 million) and a cost of \$49.4 million (2005 - \$45.5 million) for unproven properties have been excluded from the depletion and depreciation calculation.

At December 31, 2006 Daylight applied a ceiling test to its petroleum and natural gas assets and determined that no impairment has occurred. The ceiling test was calculated using the following expected future market prices:

<b>Benchmark reference price forecast</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012 to 2017</b>
WTI (\$US/bbl)	62.00	55.00	51.00	57.00	57.00	60.42
Edmonton Par (\$Cdn/bbl)	70.25	68.00	65.75	64.50	64.50	68.38
AECO (\$Cdn/mcf)	7.20	7.45	7.75	7.80	7.85	8.61
Exchange rate (\$Cdn/\$US)	0.87	0.87	0.87	0.87	0.87	0.87

After 2017 the price forecast for WTI, Edmonton Par and AECO escalate at 2% per year to the end of the reserve life and the exchange rate remains constant at 0.87.

### 5. Goodwill

The Trust reviewed the valuation of goodwill as of December 31, 2006 and determined that the fair value of the reporting unit had declined due to the decline in the Trust's market capitalization subsequent to the October 31, 2006 federal government announcement. Based upon this review, an impairment of goodwill of \$301 million (2005 – nil) has been recorded as a non-cash charge to income as of December 31, 2006. If this assessment were to be updated for the market capitalization as of March 21, 2007, the Trust estimates it would incur an additional write down of approximately \$75 million. There has been no impairment to the value of Daylight's petroleum and natural gas assets during 2006.

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	2006	2005
Balance, beginning of year	\$ 216,864	\$ 180,571
Tempest acquisition (note 2 (b))	-	36,293
Sequoia acquisition (note 2 (a))	213,126	-
Goodwill impairment recognized	(301,000)	-
Balance, end of year	\$ 128,990	\$ 216,864

### 6. Bank Debt

Daylight has a total of \$380 million available under credit facilities, of which \$349 million was drawn at December 31, 2006. The credit facilities include \$310 million available under a revolving term credit facility with a syndicate of banks and a \$70 million bridge facility that matures May 31, 2007. As a result, \$310 million has been classified on the Balance Sheet as long-term bank debt, with the remaining \$39 million classified as current bank debt. The effective interest rate for the bank debt was 5.1% for the year ended December 31, 2006 (2005 - 3.9%). The credit facilities bear interest based on the lenders' prime rate and/or at money market rates plus a stamping fee. The facilities are secured with a demand debenture of \$500 million over the petroleum and natural gas assets and are subject to semi-annual review where the lenders may re-determine the borrowing base.

Pursuant to the terms of the credit facilities dated September 21, 2006, Daylight may, with the bank's approval, extend the revolving period for a further 364 day period. If not extended, the revolving facilities will automatically convert to a one year and one day non-revolving term facility with the entire payment due on the 366<sup>th</sup> day after commencement of the term period.

### 7. Capital Leases

In conjunction with the Arrangement, Daylight acquired capital lease agreements for oil and gas equipment. The minimum lease payments over the initial term are as follows:

	Amount
2007	\$ 3,659
2008	1,007
Net minimum lease payments	4,666
Less: Current portion of capital lease obligations	(3,318)
Interest	(491)
Capital lease obligations	\$ 857

### 8. Convertible Debentures

On October 21, 2004 Daylight issued \$80 million principal amount of 8.5% Convertible Unsecured Subordinated Debentures (the "Debentures") for net proceeds of \$76.8 million. Issue costs of \$3.2 million have been classified as deferred financing charges (note 9).

The Debentures pay interest semi-annually on June 1 and December 1 and have a maturity date of December 1, 2009. The Debentures are convertible at the option of the holder to Trust Units at a conversion price of \$14.07888 per Trust Unit. Daylight has the option to redeem the Debentures at a price of \$1,050 per Debenture after December 1, 2007 and on or before December 1, 2008, at a price of \$1,025 per Debenture after December 1, 2008 and on or before December 1, 2009 and on maturity at \$1,000 per Debenture. On redemption or maturity the Trust may elect to satisfy its obligations to repay the principal and interest obligations by issuing Daylight Trust Units.



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The Debentures were initially recorded at the fair value of the obligation without the conversion feature. This obligation to make future payments of principal and interest was determined to be \$77.7 million. The difference between the principal amount of \$80 million and the fair value of the obligation is \$2.3 million and has been recorded in unitholders' equity as the fair value of the conversion feature of the Debentures.

The following table indicates the Convertible Debenture activities for the years ended December 31, 2006 and 2005:

	Face Value	Debt Component	Equity Component
Balance, December 31, 2004	\$ 80,000	\$ 77,718	\$ 2,320
Accretion and amortization	-	321	-
Conversion to Trust Units	(70,567)	(68,820)	(2,046)
Balance, December 31, 2005	\$ 9,433	\$ 9,219	\$ 274
Accretion and amortization	-	27	-
Conversion to Trust Units	(5,857)	(5,731)	(170)
Balance, December 31, 2006	\$ 3,576	\$ 3,515	\$ 104

### 9. Financial Charges

During the year ended December 31, 2006 and 2005, Daylight incurred interest charges on bank debt and convertible debentures as well as the amortization of financial charges and accretion of convertible debenture liability as follows:

	2006	2005
Bank debt interest	\$ 10,763	\$ 4,975
Convertible debenture interest	436	5,088
Amortization of financial charges	146	553
Accretion of convertible debenture liability	27	321
Total	\$ 11,372	\$ 10,937

A reconciliation of the deferred financing charges is provided as follows:

	2006	2005
Balance, beginning of year	\$ 720	\$ 3,680
Amortization	(146)	(553)
Conversion to Trust Units	(174)	(2,407)
Balance, end of year	\$ 400	\$ 720

### 10. Asset Retirement Obligations

Daylight's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. Daylight estimates the total undiscounted amount of cash flow required to settle its asset retirement obligations is approximately \$104.1 million (2005 - \$66.9 million) which will be incurred between 2007 and 2054. The majority of the costs will be incurred between 2007 and 2021. An inflation factor of 2% has been applied to the estimated asset retirement cost at December 31, 2006 and 2005. A credit-adjusted risk-free rate of 8% was used to calculate the fair value of the asset retirement obligations at December 31, 2006 and December 31, 2005.

A reconciliation of the asset retirement obligations is provided as follows:

## DAYLIGHT RESOURCES TRUST

	2006	2005
Balance, beginning of year	\$ 18,179	\$ 16,528
Acquisitions (note 2)	12,380	3,819
Liabilities incurred	585	676
Change in estimates	-	923
Liabilities settled	(6,968)	(4,010)
Liabilities transferred to Open Range (note 12(e))	-	(1,192)
Liabilities transferred to Pegasus (note 3)	(613)	-
Liabilities transferred to Trafalgar (note 12(e))	(2,230)	-
Accretion expense	1,961	1,435
Balance, end of year	\$ 23,294	\$ 18,179

### 11. Non-Controlling Interest – Exchangeable Shares

Daylight Energy is authorized to issue an unlimited number of exchangeable shares. Exchangeable shares are convertible into trust units based on an exchange ratio, which is adjusted monthly to reflect the distribution paid on the trust units. Cash distributions are not paid on exchangeable shares.

	Number of Shares	Amount
Exchangeable shares:		
Balance, December 31, 2004	2,497,637	\$ 24,019
Issued on acquisition of Flowing (note 2)	370,218	4,087
Retracted for trust units	(1,140,568)	(11,345)
Income attributable to non-controlling interest	-	2,661
Balance, December 31, 2005	1,727,287	\$ 19,422
Retracted for trust units	(956,325)	(10,993)
Retracted for trust units on acquisition of Sequoia (note 2)	(770,962)	(9,058)
Income attributable to non-controlling interest	-	629
Balance, December 31, 2006	-	\$ -

As part of the Arrangement, all of the exchangeable shares were exchanged for Daylight units. The number of trust units issued upon conversion was based on the exchange ratio in effect on the date of conversion. The exchange ratio is calculated monthly based on the five day weighted average trust unit trading price preceding the monthly distribution record date. The exchange ratio at September 21, 2006 was 1.29243 (1.17462 as at December 31, 2005).

### 12. Unitholders' Equity

The Trust Indenture provides that an unlimited number of trust units may be authorized and issued. Each trust unit is transferable, carries the right to one vote and represents an equal undivided beneficial interest in any distributions from the Trust and in the assets of the Trust in the event of termination or winding-up of the Trust. All trust units are of the same class with equal rights and privileges.

**a) Trust Units**

	<b>Number of Units</b>	<b>Amount</b>
Trust units:		
Daylight Energy Trust Unit balance, December 31, 2004	40,824,926	\$ 351,640
Issued on retraction of exchangeable shares	1,199,964	11,345
Issued on acquisition of Flowing (note 2)	2,783,904	28,996
Issued on acquisition of Tempest (note 2)	9,118,533	106,083
Issued on conversion of debentures	7,428,085	68,459
Issued through DRIP Plan	80,553	941
Unit issue costs	-	(2,336)
Balance, December 31, 2005	61,435,965	\$ 565,128
Issued on retraction of exchangeable shares	2,130,342	20,051
Issued on conversion of debentures	616,516	5,727
Issued through DRIP Plan	259,326	2,829
Issued on vesting of unit awards	2,385,757	18,499
Unit issue costs	-	(442)
Balance, prior to arrangement	66,827,906	\$ 611,792
Conversion ratio to Daylight Resources Trust Units	0.6642	-
Daylight Resources Trust Unit balance, after conversion	44,387,095	\$ 611,792
Issued on acquisition of Sequoia (note 2)	27,475,423	418,413
Issued through Premium DRIP <sup>TM</sup>	1,898,758	19,529
Issued on vesting of unit awards	20,374	223
Issued through employee unit ownership plan	52,588	569
Issued through employee bonus plan	487,939	5,464
Issued through optional cash purchase plan	91	1
Unit issue costs	-	(2,674)
Balance, December 31, 2006	74,322,268	\$ 1,053,317

***Premium Distribution Reinvestment and Optional Trust Unit Purchase Plan ("Premium DRIP<sup>TM</sup>")***

As part of the Arrangement, Daylight implemented a Premium Distribution Reinvestment and Optional Trust Unit Purchase Plan ("Premium DRIP<sup>TM</sup>") for eligible unitholders of the Trust. On distribution payment dates eligible Premium DRIP<sup>TM</sup> unitholders may receive in lieu of the cash distribution that unitholders are otherwise entitled to receive in respect of their units, a cash payment equal to 102% of such amount. Unitholders may also reinvest their cash distributions in additional trust units at a price that is 95% of the average market price for the Pricing Period. The Pricing Period refers to the period beginning on the later of the 21<sup>st</sup> business day preceding the distribution payment date and the second business day following the record date applicable to that distribution payment date, and ending on the second business day preceding the distribution payment date. Eligible Premium DRIP<sup>TM</sup> unitholders may also make optional cash payments on this date to purchase additional trust units at a price that is equal to the average market price for the Pricing Period. During the year ended December 31, 2006 Daylight issued 1,501,474 trust units from treasury, related to unitholders electing to receive the 102% of cash distributions option, in lieu of cash distributions totalling \$15.5 million. Daylight also issued 397,284 units from treasury, related to unitholders electing to receive the 95% reinvestment price for additional units option, in lieu of cash distributions totalling \$4.0 million in the same period. Daylight issued 91 units through the optional cash purchase plan.



## *Distribution Reinvestment and Optional Trust Unit Purchase Plan ("DRIP")*

On August 9, 2005 Daylight announced the implementation of the Distribution Reinvestment and Optional Trust Unit Purchase Plan ("DRIP") for eligible unitholders of the Trust. On distribution payment dates eligible DRIP unitholders may reinvest their cash distributions in additional trust units at a price that is 95% of the 10 day weighted average trading price of Daylight units. Eligible DRIP unitholders may also make optional cash payments on this date to purchase additional trust units at a price that is equal to the 10 day weighted average trading price of Daylight units. On September 21, 2006, the DRIP was replaced with the Premium DRIP™ which provides for additional elections by unitholders. During the year ended December 31, 2006 Daylight issued 259,326 (2005 – 80,553) DET trust units from treasury for the DRIP in lieu of cash distributions totaling \$2.8 million (2005 – \$0.9 million).

## *Employee Unit Ownership Plan ("EUOP")*

On September 21, 2006 Daylight adopted an Employee Unit Ownership Plan ("EUOP") whereby the Trust matches every dollar contributed by each employee, to a maximum of 9% of employee's salary. Under the terms of the EUOP, the Trust has the option to acquire units on behalf of employees through open market purchases or to issue new units from treasury. During the year ended December 31, 2006 the Trust elected to issue 52,588 units (\$0.6 million) from treasury in settlement of the EUOP obligations, representing the employee contributions and the Trust's matching contributions. The price used to determine units issued from treasury is 95% of the average market price for the Pricing Period. The Pricing Period refers to the period beginning on the later of the 21<sup>st</sup> business day preceding the distribution payment date and the second business day following the record date applicable to that distribution payment date, and ending on the second business day preceding the distribution payment date.

## *Redemption Right*

Unitholders may redeem their trust units for cash at any time, up to a maximum of \$250,000 in any calendar month, by delivering their unit certificates to the Trustee, together with a properly completed notice of redemption. The redemption amount per trust unit will be the lesser of 90 percent of the market price of the trust units on the principal market on which they are traded during the 10 day trading period after the trust units have been validly tendered for the redemption and the closing market price of the trust units on the principal market on which they are traded on the date on which they were validly tendered for redemption, or if there was no trade of the trust units on that date, the average of the last bid and ask prices of the trust units on that date.

## **b) Net Income (Loss) Per Unit**

The following table summarizes the weighted average trust units, exchangeable shares and convertible debentures used in calculating net income per trust unit:

	2006	2005
Basic	50,626,430	31,051,069
Exchangeable shares		
at exchange ratio	-	1,366,947
Convertible debentures	-	4,185,429
Restricted and Performance		
unit awards	-	53,334
Diluted	50,626,430	36,656,779

A total of 549,821 units attributable to exchangeable shares, 363,902 units attributable to convertible debentures and 905,460 Restricted and Performance units were excluded from the calculation for the year ended December 31, 2006 as they were not dilutive due to the net loss reported. Diluted net income (loss) per unit adds back interest, amortization and accretion expense on convertible debentures and non-controlling interest. Interest, amortization and accretion for the year ended December 31, 2006 was \$0.5 million (2005 - \$5.9 million). Non-controlling interest for the year ended December 31, 2006 was \$0.6 million (2005 - \$2.7 million).

c) Unit Award Incentive Plan

Daylight has a Unit Award Incentive Plan which allows the Board of Directors to grant up to 5% of the trust units outstanding, including trust units which may be issued on exchange of exchangeable shares, as Restricted and/or Performance Unit Awards to directors, officers, employees and service providers of Daylight and its affiliates. The Restricted Unit Awards vest over a three-year period. The Performance Unit Awards vest on the third anniversary of the date of the grant. The number of units issued under the Performance Unit Awards granted is also subject to a performance multiplier and is dependent on the performance of the Trust relative to a peer comparison group of oil and gas trusts. A holder of a Restricted or Performance Unit Award may elect, subject to consent of Daylight, to receive cash upon vesting in lieu of the number of units held. The plan provides for adjustments to the number of units issued based on the cumulative distributions of the Trust during the period that the Restricted or Performance Unit Award is outstanding.

The following tables reconcile the number of restricted and performance units outstanding:

	<b>Number</b>
Restricted Awards:	
Balance, December 31, 2004	-
Issued	1,221,850
Forfeited	(177,500)
Balance, December 31, 2005	1,044,350
Issued	1,011,395
Vested and converted to trust units	(1,420,523)
Forfeited	(77,689)
Balance December 31, 2006	557,533
Weighted average adjustment factor	1.05787
Trust unit equivalent	589,797

	<b>Number</b>	<b>Performance Multiplier</b>	<b>Total Number</b>
Performance Awards:			
Balance, December 31, 2004	-	-	-
Issued	322,000	-	-
Forfeited	(32,000)	-	-
Balance, December 31, 2005	290,000	2	580,000
Issued	135,000	-	135,000
Vested and converted to trust units	(290,000)	-	(580,000)
Balance, December 31, 2006	135,000	1	135,000
Weighted average adjustment factor			1.05787
Trust unit equivalent			142,812

The performance multiplier is calculated on an annual basis for one third of the performance units originally granted. The performance multiplier may range from 0 to 2 in any given year as determined by the Board of Directors. For the year ended 2005, a performance multiplier of 2 was granted on one third of the units. For the period ended September 21, 2006 a performance multiplier of 2 was granted on the remaining two thirds of the units. For the year ended 2006, a performance multiplier of 1 was granted on one third of the units.

The fair value of the Unit Awards are determined at date of grant and amortized through general and administrative expense over the vesting period as unit based compensation with a corresponding increase to contributed surplus. In conjunction with the Arrangement, all outstanding Unit Awards vested immediately prior to closing. The weighted average fair value at the date of grant for the Unit Awards granted during the year ended December 31, 2006 was \$11.85 per Unit Award (2005 - \$10.27) and \$16.3 million (2005 - \$2.9 million) was charged to general and administrative expense in the period.

d) Contributed Surplus

	Amount
Balance, December 31, 2004	\$ -
Unit based compensation	2,936
Balance, December 31, 2005	\$ 2,936
Unit based compensation	16,348
Vested Unit Awards	(18,722)
Balance, December 31, 2006	\$ 562



**e) Accumulated Distributions**

The table below shows the cumulative distributions and the per unit equivalent for Daylight Energy Trust and Daylight Resources Trust:

<b>Record Date</b>	<b>per Daylight Unit equivalent *</b>	<b>per DET Unit</b>	<b>Amount</b>
Total 2004 distributions	\$ 0.36	\$ 0.24	\$ 9,777
January 31, 2005	0.18	0.12	4,920
February 28, 2005	0.18	0.12	5,001
March 31, 2005	0.18	0.12	5,041
April 29, 2005	0.18	0.12	5,405
May 31, 2005	0.18	0.12	5,438
June 30, 2005	0.18	0.12	5,441
July 29, 2005	0.18	0.12	5,456
August 31, 2005	0.18	0.12	5,466
September 30, 2005	0.18	0.12	6,101
October 31, 2005	0.21	0.14	7,177
November 30, 2005	0.21	0.14	8,538
December 31, 2005	0.21	0.14	8,601
Total 2005 cash distributions	\$ 2.26	\$ 1.50	\$ 72,585
Open Range distribution (cost base)	0.47	0.31	15,235
Total 2005 distributions	\$ 2.73	\$ 1.81	\$ 87,820
January 31, 2006	0.21	0.14	8,773
February 28, 2006	0.21	0.14	8,810
March 31, 2006	0.21	0.14	8,824
April 28, 2006	0.21	0.14	8,873
May 31, 2006	0.21	0.14	8,893
June 30, 2006	0.21	0.14	8,897
July 31, 2006	0.21	0.14	8,904
August 31, 2006	0.21	0.14	8,927
Total 2006 cash distributions	\$ 1.69	\$ 1.12	\$ 70,901
Trafalgar distribution (cost base)	0.26	0.17	11,202
Total 2006 distributions	\$ 1.94	\$ 1.29	\$ 82,103
Total distributions since inception	\$ 5.03	\$ 3.34	\$ 179,700

\* may not add exactly due to rounding.

The table below shows the cumulative distributions and per unit equivalent for Daylight Resources Trust:

<b>Record Date</b>	<b>Per Unit</b>	<b>Amount</b>
September 29, 2006	\$ 0.195	\$ 14,013
October 31, 2006	0.195	14,187
November 30, 2006	0.195	14,328
December 31, 2006	0.195	14,493
Total 2006 cash distributions	\$ 0.780	\$ 57,021

As part of the Arrangement, Daylight Energy disposed of interests in certain oil and gas properties in exchange for Trafalgar common shares and arrangement warrants. Daylight retained 740,240 of the

## DAYLIGHT RESOURCES TRUST

Trafalgar common shares and distributed the remaining securities to DET unitholders, Sequoia unitholders and the Daylight Energy Exchangeable Shareholders. Each DET unitholder received 0.0417 of a Trafalgar common share and 0.0116 of a Trafalgar warrant for each DET unit held. Each Sequoia unitholder received 0.0517 of a Trafalgar common share and 0.0144 of a warrant for each Sequoia unit held. The Daylight Energy exchangeable shareholders received Trafalgar common shares and warrants on the same basis as the DET unitholders based on the number of DET units into which their shares were exchangeable.

At the time of transfer, Daylight and Trafalgar were considered arms length parties and accordingly the property disposition has been recorded at its fair value of \$21.1 million.

The disposition to Trafalgar was recorded using the following fair values:

Petroleum and natural gas assets	\$ 23,330
Asset retirement obligations (note 10)	(2,230)
Total	\$ 21,100

  

Distributed to DET securityholders	\$ 11,202
Distributed to Sequoia unitholders	6,922
Retained by Daylight (note 3)	2,976
Total	\$ 21,100

As part of the Plan of Arrangement involving Daylight Energy Trust, Daylight Energy Ltd., Tempest Energy Corp., 1198311 Alberta Ltd., 1198249 Alberta Ltd., Open Range Finance Corp., the unitholders and convertible debentureholders of Daylight Energy Trust, the exchangeable shareholders of Daylight Energy Ltd., the shareholders of Tempest Energy Corp., and the shareholders of Open Range Finance Corp., Daylight Energy disposed of interests in certain oil and gas properties in exchange for Open Range Energy Corp. common shares and Open Range Arrangement Warrants ("the Open Range securities"). At the time of transfer, Daylight and Open Range were considered related parties and the disposition was recorded at the carrying value. The fair value of properties disposed of was \$18,420,000. Daylight in turn distributed the securities to unitholders, exchangeable shareholders, and convertible debentureholders with each securityholder receiving 0.10 Open Range common share and 0.02 Open Range Arrangement Warrant with a deemed fair value of \$0.31 per Trust unit equivalent.

The disposition to Open Range was recorded using the following carrying values:

Petroleum and natural gas assets	\$ 14,636
Future taxes	1,791
Asset retirement obligations	(1,192)
Total	\$ 15,235

**13. Supplemental Cash Flow Information**

	<b>2006</b>	<b>2005</b>
Changes in non-cash working capital:		
Accounts receivable	\$ 3,984	\$ (33,820)
Prepaid expenses and deposits	(3,204)	(372)
Accounts payable and accrued liabilities	(12,526)	36,245
Unrealized gain (loss) on derivatives	1,973	(2,101)
Working capital acquired on acquisition	(9,993)	(16,015)
Change in non-cash working capital	\$ (19,766)	\$ (16,063)
Relating to:		
Operating activities	\$ (18,087)	\$ (11,653)
Financing activities	(307)	(704)
Investing activities	(1,372)	(3,706)
Change in non-cash working capital	\$ (19,766)	\$ (16,063)

	<b>2006</b>	<b>2005</b>
Interest and taxes paid:		
Interest paid	\$ 11,302	\$ 10,349
Taxes paid	\$ 346	\$ 2,365

**14. Taxes**

During the second quarter of 2006, the federal government substantively enacted legislation reducing the federal tax rates. This legislation has reduced the Trust's future income tax liability and provision for future taxes by \$4.3 million, which was recognized during the second quarter of 2006.

The combined provision for taxes in the consolidated statements of income and deficit reflect an effective tax rate which differs from the expected statutory tax rate. Differences are accounted for as follows:

	<b>2006</b>	<b>2005</b>
Income before taxes and non-controlling interest	\$ (290,212)	\$ 66,214
Statutory income tax rate	34.50%	37.62%
Expected taxes	\$ (100,123)	\$ 24,910
Add (deduct):		
Net income of the Trust	(54,322)	(21,568)
Non-deductible crown charges	15,504	10,321
Write down of goodwill	103,845	-
Unrealized hedge gains	299	-
Resource allowance	(2,038)	(11,723)
Future tax rate reductions	(2,876)	(1,478)
Stock based compensation	7,443	1,105
Capital taxes	216	1,467
Other	(966)	(3,541)
Year ended December 31	\$ (33,018)	\$ (507)



## DAYLIGHT RESOURCES TRUST

### *Future Taxes*

The future tax liability at December 31 is comprised of the tax effect of temporary differences as follows:

	2006	2005
Petroleum and natural gas assets	\$ 62,214	\$ 62,920
Asset retirement obligations	(6,988)	(5,867)
Non-capital loss carry-forwards	(11,488)	(11,485)
Share issue costs	(1,578)	(1,464)
Attributed Canadian Royalty Income	(10,645)	(10,806)
Unrealized gain on derivatives	1,989	-
Deferred partnership income	-	12,562
Balance, December 31	\$ 33,504	\$ 45,860

At December 31, 2006, Daylight Energy and its subsidiaries had \$38.3 million of non-capital loss carry-forwards (\$33.8 million as at December 31, 2005). The non-capital loss carry-forwards expire \$2.2 million in 2007, \$6.0 million in 2008, \$0.6 million in 2011, \$0.8 million in 2012, \$15.2 million in 2013 and \$13.5 million in 2015.

At December 31, 2006, for the entities not subject to tax, the tax base exceeds the book amounts by \$23 million (2005 - \$10.4 million).

On October 31, 2006, the federal government announced proposed legislation relating to taxation of distributions paid by publicly traded income trusts. Currently, distributions paid to unitholders, other than returns of capital, are claimed as a deduction by the Trust in arriving at taxable income whereby tax is eliminated at the Trust level and is paid by the unitholders. The proposals would result in a two-tiered tax structure whereby distributions would first be subject to tax at the Trust level commencing in 2011 and then investors would be subject to tax on the distribution as if it were a taxable dividend paid by a taxable Canadian corporation. If enacted, the proposals would apply to the Trust effective January 1, 2011.

As the tax proposals had not yet been substantively enacted as of December 31, 2006, the consolidated financial statements of the Trust do not reflect the impact of the proposed taxation.

## 15. Financial Instruments

### Fair Value of Financial Instruments:

Financial instruments comprise accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities and cash distributions payable. The fair values of these financial instruments approximate their carrying amounts due to their short-term maturities. The Trust's long-term debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value. The convertible debentures outstanding at December 31, 2006, with a face value of \$3.6 million (2005 - \$9.4 million), had a fair value based on quoted market value of \$3.7 million (2005 - \$12.3 million).

### Credit Risk:

Portions of the Trust's accounts receivable are with joint operating partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of the Trust's oil and natural gas products are subject to an internal credit review designed to mitigate the risk of non-payment.

## DAYLIGHT RESOURCES TRUST

### Interest Rate Risk:

The Trust is exposed to interest rate risk to the extent that changes in market interest rates will impact the Trust's bank debt which is subject to a floating interest rate. The Trust had no interest rate swaps or financial hedges at December 31, 2006.

### Foreign Currency:

While substantially all of the Trust's sales are denominated in Canadian dollars, the market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar.

### Commodity Price Risk:

The financial derivatives outstanding at December 31, 2006 are summarized as follows:

Type of Contract	Commodity	Hedged Volume <sup>(3)</sup>	Hedge Price	Hedge Period	Unrealized Gain
Financial (Collar <sup>(1)</sup> )	Natural gas	10,000 GJ/d	Cdn\$7.50 - \$12.77/GJ	Nov 1/06 to Mar 31/07	\$ 1,028
Financial (Funded Collar <sup>(2)</sup> )	Natural gas	30,000 GJ/d	Cdn\$6.75 - \$9.50/GJ	Dec 1/06 to Mar 31/07	1,580
Financial (Funded Collar <sup>(2)</sup> )	Natural gas	30,000 GJ/d	Cdn\$6.75 - \$8.50/GJ	Apr 1/07 to Oct 31/07	4,455
					\$ 7,063

(1) Collar price indicates floor (minimum) and ceiling (maximum).

(2) Funded Collar price indicates floor (minimum) and ceiling (maximum). Funded Collar has a premium payable of \$0.10/GJ.

(3) A GJ converts to a Mcf at the rate of 1.055056 GJs per Mcf.

Subsequent to December 31, 2006, the following financial derivatives were entered into:

Type of Contract	Commodity	Hedged Volume <sup>(2)</sup>	Hedge Price	Hedge Period
Financial (Funded Collar <sup>(1)</sup> )	Natural gas	5,000 GJ/d	Cdn\$7.00 - \$9.10/GJ	Apr 1/07 to Oct 31/07
Financial (Funded Collar <sup>(1)</sup> )	Natural gas	5,000 GJ/d	Cdn\$7.00 - \$9.21/GJ	Apr 1/07 to Oct 31/07

(1) Funded Collar price indicates floor (minimum) and ceiling (maximum). Funded Collar has a premium payable of \$0.10/GJ.

(2) A GJ converts to a Mcf at the rate of 1.055056 GJs per Mcf.

## 16. Related Party

Since November 30, 2004, Daylight Energy Ltd. ("Daylight Energy") and Midnight Oil Explorations Ltd. ("MOX") have been operating pursuant to an Administrative and Technical Services Agreement which provided for the shared services required to manage the activities of Daylight Energy and MOX and to govern the allocation of general and administrative expenses between the entities. Under this agreement, Daylight Energy was the employer on behalf of the parties and received payment for certain technical and administrative services provided to MOX. Pursuant to DET's merger with Sequoia, Daylight Energy and MOX announced their intention to terminate the agreement on mutually acceptable terms. The Administrative and Technical Services Agreement was terminated effective December 31, 2006. Certain administrative services which provide reasonable economy and do not involve competitive issues are provided to MOX by Daylight Energy on a fixed fee basis and these services may be cancelled by either party.



## DAYLIGHT RESOURCES TRUST

Pursuant to the Administrative and Technical Services Agreement, Daylight Energy charged Midnight Oil Exploration Ltd. \$1.8 million relating to general and administrative activities for the year ended December 31, 2006 (2005 - \$1.0 million) and \$1.9 million relating to capital expenditures for the year ended December 31, 2006 (2005 - \$1.6 million).

### 17. Commitments

The following is a summary of Daylight's contractual obligations and commitments, other than bank debt as disclosed in note 6, as at December 31, 2006:

	2007	2008	2009	2010	2011	Thereafter
Capital Lease	\$ 3,659	\$ 1,007	\$ -	\$ -	\$ -	\$ -
Operating Leases	7,216	7,312	4,438	2,692	1,536	7,546
Natural gas transportation	1,009	464	232	98	83	16
	\$ 11,884	\$ 8,783	\$ 4,670	\$ 2,790	\$ 1,619	\$ 7,562

Included in operating leases are obligations related to office space, office equipment and drilling rig contract.

In addition to the above, the Trust has commitments related to its risk management program (see note 15).



## Board of Directors

### Fred Woods <sup>(2) (4) (5)</sup>

*Chairman*  
Daylight Resources Trust  
Calgary, Alberta

### Anthony Lambert

*President and Chief Executive Officer*  
Daylight Resources Trust  
Calgary, Alberta

### Dennis Chorney <sup>(1) (2) (3) (5)</sup>

*Independent Businessman*  
Calgary, Alberta

### Rick Orman <sup>(1) (3) (4) (5)</sup>

*Chief Executive Officer*  
NOR Energy AS  
Calgary, Alberta

### Jeff Tonken <sup>(1) (2) (3) (4)</sup>

*President and Chief Executive Officer*  
Birchcliff Energy Ltd.  
Calgary, Alberta

### David Tuer <sup>(1) (3) (4) (5)</sup>

*Chairman*  
Calgary Health Region  
Calgary, Alberta

### Graham Wilson <sup>(1) (2) (4)</sup>

*Independent Businessman*  
Vancouver, BC

## Officers

### Anthony Lambert

*President and Chief Executive Officer*

### Steve Nielsen

*Chief Financial Officer*

### Ted Hanbury

*Executive Vice President*

### Chayan Chakrabarty

*Vice President, International*

### Kristen Ekdahl

*Vice President, Finance*

### Brent Eshleman

*Vice President, Engineering and Exploitation*

### Randy Ford

*Vice President, Operations*

### Steve Horner

*Vice President, Business Services*

### Dale Mennis

*Vice President, Business Development*

### Jerry Simpson

*Vice President, Production*

### Brian Smart

*Vice President, Reservoir Engineering*

### Chris von Vegesack

*Corporate Secretary,*  
Burnet, Duckworth & Palmer LLP

## Bankers

Canadian Imperial Bank of Commerce  
Bank of Nova Scotia  
National Bank of Canada  
BNP Paribas  
Alberta Treasury Branches

## Legal Counsel

Burnet, Duckworth & Palmer LLP  
Calgary, Alberta

## Auditors

KPMG LLP  
Chartered Accountants  
Calgary, Alberta

## Evaluation Engineers

GLJ Petroleum Consultants Ltd.  
Calgary, Alberta

## Registrar and Transfer Agent

Valiant Trust Company  
Calgary, Alberta

## Stock Exchange Listing

The Toronto Stock Exchange  
Trading Symbols: DAY.UN and DAY.DB

## Investor Relations

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## Abbreviations

/d	per day
bbl(s)	barrel(s)
mbbls	thousand barrels
mmbbls	million barrels
mcf	thousand cubic feet
mmcf	million cubic feet
bcf	billion cubic feet
boe	barrels of oil equivalent
mmboe	million barrels of oil equivalent
mmstb	million stock tank barrels of oil
ARTC	Alberta Royalty Tax Credit
Cdn	Canadian
NGLs	natural gas liquids
WTI	West Texas Intermediate crude oil
US	United States

## Members of the following Committees:

- 1 Audit
- 2 Reserves
- 3 Compensation
- 4 Corporate Governance
- 5 Environmental, Health and Safety